

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 23–26, 2015

## Agenda Item 3

For:

Approval

Discussion

Information

### Financial Reporting Under the Cash Basis of Accounting (the Cash Basis IPSAS) – Limited Scope Review

#### Objective of Agenda Item

1. The objective of this session is to review an Issues Paper and provide directions for the preparation of a first draft of an Exposure Draft (ED) identifying potential amendments to the Cash Basis IPSAS.

#### Material(s) Presented

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| Agenda Item 3.1 | Issues Paper, Cash Basis IPSAS – Limited Scope Review  |
| Agenda Item 3.2 | Task Force Report 2010 – Review of the Cash Basis IPSAS  |
| Agenda Item 3.3 | 3.3(a) Submission from the International Consortium on Governmental Financial Management (ICGFM) Ad Hoc Committee on Accounting Standards<br><br>3.3(b) Personal views of Members of the ICGFM Ad Hoc Committee on a number of issues in response to a request from staff. |
| Agenda Item 3.4 | The Cash Basis IPSAS Part 1 and Part 2 annotated to identify location of proposed amendments for inclusion in the Exposure Draft (ED)  |

The Task Force Report 2010 is provided for information purposes. Appendices to the Task Force Report which include the survey questionnaire, a summary of responses and an outline of review processes have not been included, but are available from staff on request.

#### Action(s) Requested

The IPSASB is requested to review the Issues Paper and supporting material as appropriate, and provide directions for the development of a draft ED for consideration at the next meeting.

## Issues Paper – Limited Scope Review of the Cash Basis IPSAS

### Introduction

1. In November 2008 the IPSASB established a Task Force to review the operation of the Cash Basis IPSAS *Financial Reporting Under the Cash Basis of Accounting*. The primary objective of the review was to identify major difficulties that public sector entities in developing economies encounter in implementing the Cash Basis IPSAS and make recommendations on whether the IPSAS should be modified, or if further guidance should be provided in light of these difficulties. The Task Force presented its report to the IPSASB in mid 2010 (see Agenda item 3.2). The IPSASB accepted the Task Force's recommendations except that Members expressed different views about the recommendation dealing with consolidation. However, largely because of resource issues, the IPSASB deferred work on implementation of the Task Force recommendations.
2. At its March 2015 meeting, the IPSASB considered a Project Brief which proposed that the Cash Basis IPSAS be reviewed to respond to certain of the Task Force recommendations. The IPSASB noted that the International Consortium on Governmental Financial Management (ICGFM), which has been a strong supporter of the need for a Cash Basis IPSAS, had submitted detailed proposals for amending the Cash Basis IPSAS prepared by its Ad Hoc Committee on International Accounting Standards (hereafter referred to as the ICGFM submission – see Agenda item 3.3(a)).
3. The IPSASB agreed to action a limited scope review of the Cash Basis IPSAS focusing on the Task Force recommendations dealing with consolidation, external assistance, third party payments and “housekeeping” matters. The IPSASB also agreed to also consider the detailed proposals for revisions submitted by the ICGFM as they relate to the matters within the limited scope of this review<sup>1</sup>. The objectives of the review are to:
  - (i) Consider, and as appropriate propose, amendments to sections of the IPSAS dealing with consolidation, external assistance and third party payments that will reduce obstacles to the adoption of the Cash Basis IPSAS;
  - (ii) Undertake a high level “housekeeping” review of the IPSAS to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs; and
  - (iii) Reinforce and better communicate the role of the Cash Basis IPSASB in the IPSASBs standard setting strategy – “...that accounting in accordance with the Cash Basis IPSAS is an intermediate step on the road to accruals based accounting, not an end in itself.” (IPSASB draft minutes March 2015).
4. The IPSASB also directed that the communication strategy supporting the issue of any Exposure Draft (ED) proposing changes to the Cash Basis IPSAS should make clear the IPSASB's reason

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<sup>1</sup> The ICGFM submission deals with reforms to aspects of the Cash Basis IPSAS that are broader than the matters that the IPSASB has directed as being within this limited scope review. It also proposes a model of the relationship between the Cash Basis IPSAS and the accrual IPSASs that could be adopted in a full a review of the Cash Basis IPSAS. These matters are not pursued further in this paper given the narrowly focused scope of this review.

for, and objectives of, this limited review. It should also make clear that the role the Cash Basis IPSAS is intended to play in the IPSASB's overall strategy is as an intermediate step on the road to accruals based accounting.

5. Staff has followed up with members of the ICGFM Ad Hoc Committee to sound out their views on, and draw on their experience with, application of certain aspects of the IPSAS requirements within the scope of this review, and potential mechanism to overcome difficulties that may arise in practice. The response to the matters raised by staff is included as Agenda Item 3.3(b). It is provided for the information of Members. It should be noted that this response reflects the personal views of members of the ICGFM Ad Hoc Committee. It is not an official response from the ICGFM.

### **The Issues Paper and Related Agenda Items**

6. This Issues Paper identifies alternative approaches to revision of the specified sections of the Cash Basis IPSAS. Agenda item 3.4 provides by marked-up text and comment boxes sections a broad outline of sections of the Cash Basis IPSAS that are likely to need to change to reflect the revision proposed by staff. Staff appreciates this is early in the revision process to highlight potential areas for change in the IPSAS. However, staff is conscious of the tight schedule the IPSASB has set for completion of this project and is of the view that identification of the areas of the IPSAS that are likely to need amendments will be useful to the IPSASB in agreeing or rejecting the staff proposals and identifying areas for further development and refinement.

### **Background – Adoption of the Cash Basis IPSAS and Objectives of the Review**

#### *Adoption of the Cash Basis IPSAS*

7. While there are different views about just how many jurisdictions have adopted the Cash Basis IPSAS, there is general agreement that it is not widely adopted. Estimates of its adoption include:
  - (i) The Task Force Report (2010) – respondents identified adoption of the Cash basis IPSAS at national level by five of the 34 countries which responded to this question in the Task Force survey, with progress towards full adoption well underway in another jurisdiction. (However, there were differing views about whether full consolidation had been applied in two jurisdictions.) The Task Force also reported adoption of a modified form of cash basis accounting in 23 countries– *“the most frequent modifications being the recognition of some accruals in the primary financial statements, and the preparation of financial reports which do not consolidate all controlled entities.”*
  - (ii) An INTOSAI Survey of its 189 members (2009) reports 26 countries adopt the Cash Basis IPSAS;
  - (iii) Input provided to IPSASB during 2014 indicates that the Cash Basis IPSAS has been adopted by national or sub-national governments in nine jurisdictions, with progress to adoption in another seven jurisdiction;
  - (iv) Wikipedia (2015) reports that six countries have adopted the cash basis IPSAS; and
  - (v) The ICGFM submission (2015) reports that no country has fully complied with the Cash Basis IPSAS: *“A number of countries around the world have sought to publish GPFs that are compliant with the Cash Basis standard. However, so far as it has been possible to*

*determine, no country has been able to achieve full compliance (even though some claim to have done so)."*

*The Objectives of Financial Reporting and the Cash Basis IPSAS*

8. "The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities" (the Conceptual Framework) establishes that
  - (i) The objectives of financial reporting for accrual basis general purpose financial reports (GPFs) are to provide information useful for accountability and decision making.
  - (ii) The qualitative characteristics (QCs) of information included in GPFs are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on such information are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.
9. The Objectives and QCs sections of the Cash Basis IPSAS reflects similar objectives for financial reporting and the application of similar (though not the same) QCs<sup>2</sup> for the selection of accounting policies and information included in cash basis GPFs as those identified in the Framework – albeit the ability of cash basis financial statements to achieve these objectives is limited (see Cash Basis IPSAS: opening paragraphs on *Objective*, paragraph 1.3.32 and Appendix 4.)
10. The ICGFM submission notes that the Cash Basis IPSAS standard is of great importance for governments that will not implement accrual standards in the foreseeable future, as well as governments that are planning to transition to accrual basis. This is because it provides a mechanism for governments that do not adopt the accrual basis to publish GPFs that are compliant with an internationally recognized standard, as well as a starting point for governments intending to transition to the accrual basis.
11. The IPSASB intends that accounting in accordance with the Cash Basis IPSAS is available as an initial step on the road to accruals based accounting. Study 14 "*Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*" (Third Edition January 2011) provides guidance on transition paths. If the Cash Basis IPSAS is not adopted by reporting entities which report on a cash basis (or near cash basis), it is not serving its intended purpose of representing an achievable initial step on the transition to the accrual basis and providing information useful as input for accountability and decision making purposes (as far as that is possible under a cash basis).
12. This is noted in the ICGFM submission:

*To be relevant the Cash Basis standard must be a feasibly achievable standard. The evidence is that at present this is not the case. At the same time, if the Cash Basis standard is part of the overall IPSAS framework, then there needs to be a linkage between cash and accrual standards. (ICGFM submission Agenda item 3.3(a))*

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<sup>2</sup> The Objectives and QCs identified in the Cash Basis IPSAS are derived from those in the accrual IPSASs on issue in 2002/2003.

*Obstacles to Adoption of the Cash Basis IPSAS*

13. The Task Force Report and ICGFM submission identify the requirement for consolidation of all controlled entities as a major technical obstacle to adoption, with third party payments and information about external assistance also proving onerous.<sup>3</sup>
14. The removal of these “problematic” requirements of the Cash Basis IPSAS will reduce obstacles to its adoption. However, as requirements that contribute to the achievement of the objectives of financial reporting are removed or “softened”, so is the potential for a reduction in the usefulness of Cash Basis IPSAS compliant GPFRs as a vehicle for the discharge of accountability and to provide input for decision making – that is, a reduction in the extent to which it achieves the objectives of financial reporting as envisaged by the IPSASB. The IPSASBs decisions on revisions to the Cash Basis IPSAS will then involve a balancing of (a) the benefits in the form of greater adoption that will flow from relaxation of the requirements and introduction of more free-choice in the selection of accounting policies within the Cash Basis IPSAS, with (b) the drawback of any reduction in the usefulness of the resultant IPSAS compliant financial statements in achieving the objectives of financial reporting.
15. The following sections of this paper provide background on the issues within the scope of this review and staff views on approaches that may be adopted to respond to them consistent with the project objectives.

**Issues - Consolidation (Cash Basis IPSAS paragraphs 1.6.1.—1.6.21)**

**Current requirements**

16. The Cash Basis IPSAS (paragraphs 1.6.5 to 1.6.8) requires a controlling entity to prepare a Statement of Cash Receipts and Payments which consolidates all controlled entities, foreign and domestic. Exemptions from this requirement are provided to controlling entities which are wholly owned or virtually wholly owned in certain circumstances. Controlled entities which operate under severe external long-term restrictions which prevent the controlling entity from benefiting from their activities are also not to be consolidated. Transitional provisions (paragraphs 1.8.2 and 1.8.3) provide relief for three-years from the requirement to eliminate all cash balances and transactions between entities within the economic entity.
17. The consolidation requirements in the Cash Basis IPSAS reflect those in IPSAS 6, “*Consolidated Financial Statements*” which was in place when the Cash Basis IPSAS was developed. IPSAS 6 has been replaced by IPSAS 35, “*Consolidated Financial Statements*” which updates and amends certain of the definitions, requirements and explanations in IPSAS 6 and the circumstances in which controlling entities are exempted from the requirement to prepare consolidated financial statements. Amendments to the Cash Basis IPSAS to better align with IPSAS 35 will be considered as part of any “house-keeping” review of the Cash Basis IPSAS. Such amendments will be subject to the IPSASB’s decision on any revisions to the existing consolidation requirements/encouragements that are to be included in the ED issued in the course of this limited scope review.

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<sup>3</sup> Consolidation and auditing third party payments are also identified as being amongst the major challenges for audit by former IPSAS Board member Frans van Schaik, in an article in *International Journal of Government Auditing* – October 2014

## **1. Extract from the Cash Basis IPSAS — Consolidated Financial Statements**

### **Scope of Consolidated Financial Statements**

- 1.6.5** *A controlling entity, other than a controlling entity identified in paragraphs 1.6.7 and 1.6.8, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than those referred to in paragraph 1.6.6.*
- 1.6.6** *A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.*
- 1.6.7** *A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements.*
- 1.6.8** *A controlling entity that is virtually wholly owned need not present consolidated financial statements provided the controlling entity obtains the approval of the owners of the minority interest.*

### **Transitional Provisions - Consolidated Financial Statements**

- 1.8.2** *Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.*
- 1.8.3** *Where entities apply the transitional provision in paragraph 1.8.2, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.*

### **The Task Force Report**

18. The Task Force reported that the requirement for full consolidation of all controlled entities was, together with the requirement to apply a “pure” cash basis<sup>4</sup> reporting model, the most frequently identified obstacles to adoption and ongoing application of the Cash Basis IPSAS. The reasons for non-consolidation cited most frequently were that it was contrary to government policy and/or practical difficulties including identifying controlled entities, gaining access to relevant data and conforming different accounting policies and/or reporting dates.
19. The Task Force noted that loss of information about a “core government” entity reflecting the government budget sector or general government sector (GGS) as described in government finance statistics (GFS) and the accrual IPSASs may well underpin the concerns of some/many respondents. This was particularly so when a requirement to prepare a consolidated financial report at the whole of government level required consolidation of all controlled GBE's and, in some jurisdictions, local and state governments with national governments:

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<sup>4</sup> The Task Force noted that the most frequently proposed amendments to the Cash Basis IPSAS were to modify the pure cash basis to reflect current practice in jurisdictions by allowing inclusion of some accrual information in the GPFR. For example, by keeping the books open for some time after period end and, in some cases, to recognizing receivables, payables and some other assets and liabilities. (“However, it was not clear that the same modifications to the pure cash basis are adopted in each jurisdiction...”)

*“Many respondents to the project questionnaire and participants in follow-up discussions identified significant concerns with the requirement for full consolidation. The provision of relief from the requirement for full consolidation was the second most frequently proposed amendment to the Cash Basis IPSAS. It is seen as the major impediment to adoption of the IPSAS in a number of jurisdictions. In some cases, the concerns go to matters of principle – for example, inclusion of the cash flows and balances of all controlled entities (and in particular GBE’s) will obscure information about the cash flows of the “core” government itself. In other cases, [they go] to matters of practicality – for example, compatibility with existing legislation, ability to identify controlled entities, differences in the reporting basis adopted by GBE’s and other government entities, and capacity (including the technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.”* (Task Force Report, Agenda item 3.2 Page 23)

20. The Task Force also noted that concerns about the practicality and usefulness of consolidation financial statements encompassing all controlled entities are not unique to the Cash Basis IPSAS.

### **The ICGFM Submission**

21. The ICGFM submission notes technical issues, skills/capacity constraints and likely government priority for the GFS approach as major obstacle to adoption of the consolidation requirements the Cash Basis IPSAS.
22. *“It is our view that the present Cash Basis standard consolidation requirements are so onerous that it is unlikely that most countries reporting under the Cash Basis standard will ever be able to meet the requirement.”* (ICGFM submission Agenda item 3.3(a))

### **Potential approaches to overcoming the “consolidation” obstacle**

23. The relationship between consolidation requirements in the Cash Basis IPSAS and the accrual IPSASs means that, subject to any updates to reflect changes to IPSAS 35, the entities that are encompassed within the government or other reporting entity and the cash receipts, payments and balances reported in the financial statements of a government will not differ dependent on whether those statements are prepared under a cash basis or accrual basis. Nor will they differ as entities transition through modified cash and modified accrual bases to the accrual basis on the paths laid out in Study 14.
24. It does appear that the consolidation requirements present an ongoing impediment to adoption of the cash basis IPSAS and some relaxation of the requirements will be necessary to achieve the IPSASB’s objective of facilitating greater adoption. Any removal of the consolidation requirements, other than the introduction of a transitional provision would of course mark an uncoupling of the requirements in the Cash Basis IPSAS from those in accrual IPSASs for reasons other than the just the narrow focus on cash, rather than all resources and obligations and changes therein. <sup>5</sup>

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1. <sup>5</sup> The introduction of different requirements for identification of the consolidated reporting entity under the Cash Basis IPSAS may also have implications for Study 14 “Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities” (Third Edition January 2011). That is it may require additional commentary in Study 14 to acknowledge an additional factor to be considered in the transition from the cash basis reporting entity to the accrual basis reporting entity in some circumstances.

25. The following sections consider alternative, but in many cases overlapping, approaches that may be adopted to overcome the obstacles to adoption of the Cash Basis IPSAS that arise from the current consolidation requirements. These approaches may be categorized as:
- (i) Retain the existing requirements for full consolidation but include transitional provisions to facilitate and support adoption of those requirements, as those proposed by the Task Force or included in IPSAS 33, “*First Time Adoption of the Accrual Basis IPSASs*”;
  - (ii) Recast the requirement for full consolidation as an encouragement, as proposed in the ICGFM submission;
  - (iii) Require full consolidation but provide extensive relief for practical difficulties, including technical, legislative and capacity constraints. Encourage entities to overcome these obstacles and moving to full consolidation.
  - (iv) Refocus the requirements section of Part 1 on only the consolidation techniques to be adopted when a consolidated Statement of Cash Receipts and Payments is prepared. Encourage, rather than require, full consolidation.
  - (v) Require the preparation of a consolidated Statement of Cash Receipts and Payments to reflect an interim group reporting entity such as the budget sector or the GGS. Encourage full consolidation.

**(i) Transitional Provisions**

26. The Cash Basis IPSAS provides a transitional provision of three years from first adoption of the IPSAS for entities to comply with the requirements for elimination of cash balances and transactions between entities within the economic entity. It does not provide transitional provisions that provide relief from the requirement to prepare consolidated financial statements encompassing all controlled entities. The Task Force recommended that:
- (i) The requirement for consolidation should be revisited when the reporting entity component of the Framework and the joint project with the IMF to discuss interventions by governments in response to the global financial crisis, and the application of accounting standards for reporting such government actions had been developed<sup>6</sup>;
  - (ii) A transitional period of say 3–5 years from first adoption should be provided for compliance with the consolidation requirement — to provide an opportunity for necessary changes in legislation to be processed and other initiatives directed at overcoming practical obstacles to be further developed; and
  - (iii) Guidance should be provided on reporting of cash receipts, payments and balances of the budget sector, or other representation of the core government as adopted in the jurisdiction. (See Task Force Report recommendation 3, Agenda item 3.2 pages 25, 26)
27. It is now some 12 years since issue of the Cash Basis IPSAS and five plus years since Task Force gathered its evidence and completed its report. The joint project with the IMF has been completed, the Conceptual Framework has been issued and IPSAS 35 which updates IPSAS 6 has been

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<sup>6</sup> As the Task Force prepared its report the IPSASB was considering the concepts that underpin a reporting entity and group reporting entity as part of the Conceptual Framework project and the consequences of governments’ responses to the GFC in a joint project with the IMF.

issued. The still limited adoption of the IPSAS and the observations of the ICGFM, support the view that consolidation remains a major obstacle and the introduction of a 3 to 5 year transitional period is unlikely to prove a long term solution to this obstacle. This is likely to be particularly so for those jurisdictions that have an “in principle” concern about the loss of information about core government activities that results from full consolidation. In addition, inclusion of requirements or encouragements to report additional information about such core government activities whether defined consist with the GGS or as the budget sector is unlikely to overcome the practical, technical and resourcing issues that come into play for preparation of a Statement of Cash Receipts and Payments that consolidates all controlled entities. This was acknowledged by the Task Force:

*The inclusion of such transitional provisions will not necessarily overcome the concerns identified by those who have contributed to this review. However, there appears to be little downside to their inclusion and will enable entities to commit to, and claim compliance with, the Cash Basis IPSAS while mechanisms to overcome these practical issues are put in place.” (Task Force Report. Agenda Item 3.2 page 24))*

28. Staff is of the view that however appealing maintenance of the current relationship of the group reporting entity in the cash basis and the accrual IPSASs may be, some relaxation of the consolidation requirements beyond the introduction of transitional provisions will be necessary to facilitate greater adoption of the Cash Basis IPSAS.

***(ii) Encouragement only***

29. The ICGFM submission proposes that the consolidation requirements should be recast as encouragements only. It notes that, as an alternative to full consolidation, there is merit in allowing a consolidation of entities that make up the GGS as reflected in GFS. However, it proposes that a GGS consolidation should not be included as a requirement because this is not consistent with the requirements of the accrual IPSASs.

*“Making GGS consolidation an option would be more feasible, but then the Cash Basis Standard would not be consistent with the accrual IPSAS. Hence it is our view that the whole of the consolidation requirement should be moved to Part 2 of the Standard as an encouraged disclosure. Furthermore, since Part 2 is more flexible, consolidation could be encouraged on either the control basis (as in IPSAS 35) or on the GGS basis (as in IPSAS 22).”<sup>7</sup> (ICGFM submission Agenda Item 3.3(a))*

30. An encouragement only approach would be consistent with a transition methodology that involved progressive adoption of the encouraged practices and disclosures as the route to adoption of the full suite of accrual IPSASs. It does not preclude the identification of the GGS, or other consolidation of core activities, as a group reporting entity in the course of the transition to the full accrual basis.

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2. <sup>7</sup> IPSAS 22 “Disclosure of Financial Information about the General Government Sector” presents information about controlled entities that make up the GGS. This does not fully reflect the GGS as defined in statistical bases of accounting. This is because, for statistical bases of financial reporting, the GGS may encompass entities that are not controlled, for example the GGS of a national government may encompass lower levels of government such as state or local governments that are not controlled by the national government.

31. The implementation of such an approach is likely to require amendments to other sections of the Cash Basis IPSAS to, for example, ensure that the definition of an economic entity or requirements to recognize in a Statement of Cash Receipts and Payments, all cash receipts, payments and balances controlled by the entity does not unintentionally trigger consolidation requirements. This of course is only a matter of drafting and clarification to ensure the text of the IPSAS fully reflects the intent of the IPSASB's decision. Dealing with these and other consequential amendments will also apply in respect of all the approaches considered below.
32. Making consolidation requirements optional would remove a significant obstacle to achieving compliance with the Cash Basis IPSAS and facilitate adoption of the IPSAS in more jurisdictions. It would of course mean that the administrative arrangements for delivery of services could influence the activities encompassed by GPFRs and these may vary from jurisdiction to jurisdiction, and from period to period for the same entity. This may be seen as undermining achievement of the objectives of financial reporting, particularly if the group reporting entity was not stable from period to period. These concerns will also apply in respect of most, if not all, of the approaches considered below.
33. Requirements to disclose the composition of the group reporting entity and changes therein from period to period may overcome some of the concerns noted above. Similarly, the retention of requirements relating to the procedures that are to be adopted for preparation of consolidated financial statements, updated for IPSAS 35 as appropriate, may overcome concerns about the potential to adopt different consolidation methodologies in the preparation of the financial statement. The use of such "safeguards" is considered further in the following sections.

***(iii) Retain consolidation as a requirement but provide relief for practical obstacles***

34. As noted above, the Task Force reported that legislation, technical factors and resource constraints presented a major obstacle to satisfaction of the consolidation requirements in many jurisdictions.
35. Retention of the existing requirement to prepare consolidated financial statements and the procedures to be adopted for such statements, but with provision of relief from such requirements on grounds of, for example, conflict with legislative requirements and practical factors such as technical and capacity constraints would remove a range of obstacles to adoption identified by the Task Force. This approach would provide relief that responds to jurisdictional circumstances but retain a clear and authoritative message on the intent of the IPSAS – to move to full accrual as these obstacles are overcome. It would also retain requirements relating to the procedures to be adopted when full or partial consolidated financial statements are prepared and disclosures to be made. (See Extract 2 below. Cash Basis IPSAS paragraphs 1.6.16, 1.6.20)
36. Specification of the conditions that need to be present to give effect to the relief may provide scope to introduce some boundaries around the circumstances in which free choice on the composition of the group reporting entity is available. For example, text may specify that relief is only available in circumstances where:
  - (i) Full consolidation is contrary to legislation; or
  - (ii) It is not possible to determine whether an entity is controlled. The consolidation requirements apply to only controlled entities; or

- (iii) It is not possible to collect and process the necessary data on a sufficiently timely basis to meet reporting deadlines. In these circumstances, requirements to identify the controlled entities which have not been consolidated may be introduced.
37. This approach may, at least to some extent, reflect the outcome anticipated by the ICGFM submission – that a clear link to the accrual IPSASs is maintained and, as these obstacles are overcome, the group reporting entity will continue to build to full accrual, including moving through a GGS type group reporting entity.
38. While perhaps narrowing the circumstances in which relief is provided and requiring consistency in application of consolidation procedures, this approach would suffer from many of the same concerns as the “*encouragement only*” approach identified above. That is the composition of the group reporting entity may change from period to period and the notion of the group reporting entity would differ from jurisdiction to jurisdiction as the principal of control is eroded by application of relief. It would also explicitly recognize that existing legislation could/would override the requirements of IPSASs. While legislation may act as an obstacle to preparation of IPSAS compliant financial statements in some jurisdictions, a “*legislation override*” it is not a notion that is reflected in IPSASs. Therefore, it is an approach to consolidation that cannot be maintained as the entity transitions to, and ultimately adopts, the accrual basis IPSASs.
39. To achieve the intended result of providing relief from a potentially wide range of practical obstacles that may arise in differing jurisdictions, the conditions under which relief is available are likely to need to be broadly expressed. Consequently, the circumstances which satisfy these conditions and ensure compliance with the IPSAS are likely to involve some judgement and may be open to differing interpretations. Given that compliance with the IPSAS is an important reason for providing relief from consolidation requirements, the potential for different interpretations by, for example, preparers and auditors may reduce the attractiveness of this approach.

*Retain the requirement to consolidate controlled entities other than controlled GBEs*

40. A more objective or observable basis for determining which entities are to be consolidated may be important to attract entities to report in accordance with the Cash Basis IPSAS. Such a basis can be provided by removing all requirements to consolidate as in the encouragements only approach outlined in (ii) above, or by not requiring consolidation of particular identifiable classes of controlled entity. For example, by not requiring consolidation of GBEs. This would respond to a subset of implementation issues identified by respondents to the Task Force and by the ICGFM submission, including:
- (i) Practical issues where GBE's report on the accrual basis; and
- (ii) In respect of whole of government financial statements, a loss of focus on cash receipts, payments and balances related to core government activities.
41. However, this narrowly focused exception would not respond to the full range of obstacles identified by the Task Force. To overcome concerns about consistency of interpretation and application, it would also require an agreed definition, or clear generally accepted understanding, of what constitutes a GBE's to be in place.

**(iv) Refocus the section on consolidation procedures**

42. Currently paragraph 1.6.5 requires that a controlling entity prepare consolidated financial statements that consolidate all controlled entities, and paragraphs 1.6.6 to 1.6.8 provide relief from

that requirement in certain circumstances. Paragraphs 1.6.16 through 1.6.20 identify and explain the consolidation procedures to be adopted in preparing consolidated financial statements and the disclosures that are to be made in those statements. (See Extract 2 below. Cash Basis IPSAS paragraphs 1.6.16, 1.6.20)

## **2. Extract from the Cash Basis IPSAS Part 1 — Consolidated Financial Statements**

### **Consolidation Procedures**

#### **1.6.16 The following consolidation procedures apply:**

- (a) cash balances and cash transactions between entities within the economic entity should be eliminated in full;**
- (b) when the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months; and**
- (c) consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.**

### **Consolidation Disclosures**

#### **1.6.20 The following disclosures should be made in consolidated financial statements:**

- (a) a listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity); and**
- (b) the reasons for not consolidating a controlled entity.**

43. The Conceptual Framework explains “A public sector reporting entity may comprise two or more separate entities that present GPFs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.”

44. The Conceptual Framework does not specify which entities are to be included in a group reporting entity. Rather, it identifies key features of a reporting entity and group reporting entity and provides guidance on the principles and factors that should be considered in determining whether a reporting entity exists. Commenting on development of the concept of the reporting entity, the Basis for Conclusions to Chapter 4 of the Conceptual Framework explains:

*The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFs. It noted that the public sector organizations and programs that are to prepare GPFs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.*

*Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a*

*reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity. (BC 4.3 and BC 4.4)*

45. Drawing on observations in the Conceptual Framework to support the notion that the legislation or other authority may specify the composition of a group reporting entity paragraphs 1.6.5 to 1.6.8 of the Cash Basis IPSAS could be refocused to simply require:
- “Where two or more separate entities prepare and present GPFs as if they are a single entity, the consolidation procedures identified in paragraph 1.6.16 and disclosure requirements in paragraph 1.6.20 shall be followed.”*
46. Commentary supporting this requirement could explain the implication of this requirement and its relationship to Part 2 of the IPSAS. For example, that this IPSAS does not specify which controlled entities form a group reporting entity for consolidation purposes, or the circumstances in which consolidated financial statements are to be prepared. Rather, it establishes the procedures that are to be adopted in the preparation of any consolidated financial statements that are prepared. It could also note that the IPSASB is of the view that a controlling entity should prepare consolidated GPFs which consolidate all controlled entities but acknowledges that this may not be possible for many entities on initial adoption of the Cash Basis IPSAS for a number of reasons including capacity constraints that limit the ability to collect and process data in timely fashion. However, controlling entities are encouraged to progressively work through these obstacles and move to the preparation of consolidated financial statements that consolidated all controlled entities. Part 2 of this Standard sets out factors to be considered in determining which entities should be included in the group reporting entity for financial reporting purpose.
47. The Basis for Conclusions of the final IPSAS could also explain that the IPSASB appreciates that the nature of the obstacles faced by entities adopting the Cash Basis IPSAS and the process and time frame to overcome them can differ from jurisdiction to jurisdiction. Consequently, the IPSAS does not specify a time frame for the preparation of financial statements that consolidate all controlled entities.
48. Commentary or the Basis for Conclusions may also draw on the Conceptual Framework to note the characteristics of a reporting entity and group reporting entity that should be considered as jurisdictions transition to full consolidation. For example, that the group entity:
- *raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and*
  - *There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.”*
49. This approach is of course open to concerns about comparability of the reporting entity from one period to the next and between different entities – albeit that such differences may be justified by reference to key characteristics of the reporting entity.
50. Given, the removal of a requirement to prepare consolidated financial statements, retention of the transitional provision and related disclosure at paragraphs 1.8.2 and 1.8.3 may not be necessary. However, there may be no down-side to retention of a transitional provision which provides relief from the requirement to eliminate cash balances and transactions within the group for 3 years from initial adoption of the IPSAS. Such provisions may be useful to those jurisdictions that wish, on

initial adoption of the IPSAS, to identify the entities that are to be included in consolidated financial statements while the accounting procedures required by the IPSAS are implemented.

**(v) Identify an interim group reporting entity and encourage the movement to full accrual**

51. The Task Force noted that concerns about the loss of information about “core government” activities as reflected by the government budget sector or GGS underpins the concerns that some/many respondents have with requirement to prepare a consolidated financial report at the whole of government level. It recommended that the Cash Basis IPSAS also provide for reporting of the core government as adopted in the jurisdiction, as well as the whole of government. As noted above, the ICGFM submission also noted that requiring preparation of a statement of cash receipts and payments that consolidated the entities in the GGS had merit, but was concerned that it did not conform to requirements of accrual IPSASs.
52. IPSAS 22, *“Disclosure of Financial Information about the General Government Sector”* provides for reporting of financial information about the general government sector (GGS) in whole of government consolidated financial statements. In broad terms, for purposes of IPSAS 22, the GGS will comprise all controlled *“non-profit entities that undertake nonmarket activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities.”* (IPSAS 22 paragraph 5). This is a useful representation of core government activities.
53. Requiring the preparation of consolidated financial statements that reflect the GGS as defined by IPSAS 22 as an interim step within a broad encouragement to adopt full consolidation, is appealing. It is consistent with the IPSASB’s objectives of strengthening links to the GFS and is identified by the ICGFM submission as an approach more achievable than full consolidation.
54. The Cash Basis IPSAS applies to individual governmental departments and agencies that may be controlling entities as well as the whole of government. It provides relief from preparation of consolidated financial statements for intermediate controlling entities under certain circumstances. This relief will remain in place, subject to any refinements to align with the recently issued IPSAS 35 *Consolidated Financial Statements*. (Housekeeping matters are addressed later in this paper). If the IPSASB determines to adopt this “interim group entity” approach to consolidation, the continuing appropriateness of the conditions for relief can be considered as part of the process of updating the Cash Basis IPSAS to align with IPSAS 35.

*The government budget sector*

55. The requirements currently included in the Cash Basis IPSAS for presentation of a comparison of actual and budget information are relevant to any consideration of whether a requirement to prepare consolidated financial statements consistent with the GGS should be included in Part 1 of the Cash Basis IPSAS. These requirements are noted below.
56. The Cash Basis IPSAS requires that entities which make publicly available their approved budgets, present a statement of cash receipts and payments or other statement, which includes a comparison of budget and actual amounts. These requirements reflect the requirements of IPSAS 24, *“Presentation of Budget Information in Financial Statements”* as far as applicable to the cash basis of financial reporting. (See Extract 3 Cash Basis IPSAS below paragraphs 1.9.8 and 1.9.17)

### **3. Extract from the Cash Basis IPSAS Part 1 — Presentation of Budget Information in Financial Statements**

#### **Presentation of a Comparison of Budget and Actual Amounts**

**1.9.8** *Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:*

*(a) The original and final budget amounts;*

*(b) The actual amounts on a comparable basis; and*

*(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.*

#### **Presentation**

**1.9.17** *An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.*

57. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget approved by the legislature (or equivalent). In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities, or entities included in the financial statements of a government or other public sector entity.
58. For those governments that make publicly available budgets, the budget comparison requirements of the Cash Basis IPSAS can, in effect, result in the preparation of consolidated financial statements that represent an expression of core government activities. Such statements are likely to reflect a substantial subset of entities encompassed by the GGS. Subject to adoption of different consolidation procedures for preparation of the budget and the financial statements, compliance with these requirements of the IPSAS are unlikely to be subject to legislative, technical and institutional impediments to full consolidation. Compliance with such consolidation requirements is therefore likely to be achievable in many jurisdictions. (However, it is appropriate to note that, while not identified as an impediment to adoption of the IPSAS, some respondents to the Task Force review did express the view that satisfying the requirements for comparisons with budget gave rise to some implementation issues, and advocated that the requirements be simplified and/or enhanced, including that the IPSAS and the budget reporting basis should be more closely aligned.)
59. Reporting against budget will support the discharge of accountability obligations by public sector entities by, for example, demonstrating compliance with the approved budget(s) and provide information useful for decision making – within the limits of a cash basis reporting model.
60. As Members consider options for providing relief from full consolidation, it is appropriate to note that within the terms of this limited scope review, the requirements for budget comparison will remain in

place. Therefore, for those government that make their budgets publicly available, requirements to disclose information about the group encompassed by that budget will remain in place.

**Additional input**

61. As noted above, as further input to the IPSASB's deliberations, staff followed up with members of the ICGFM Ad Hoc committee for their personal experiences with application of the IPSAS. In respect of consolidation staff sought views on whether:
- (i) The consolidation procedures themselves presented a major obstacle to adoption of the IPSAS; and
  - (ii) Obstacles to adoption would be overcome or reduced if the Cash Basis IPSAS required:
    - a. consolidation of only subgroups of controlled entities; or
    - b. did not require the preparation of consolidated financial statements at all, but did require that the consolidated procedures were to be applied to any consolidated financial statements that were prepared were prepared.
62. The views of those members are included at Agenda item 3.3(b). In short, their views are that consolidation of all of central government budget entities and extra budget entities is feasible and should be mandatory under the Cash Basis Standard.

*In summary, we consider that a more limited but feasible consolidation requirement will actually improve outcomes in terms of both information provided and IPSAS compliance.*

**Staff Views**

63. The Task Force report and ICGFM submission identify consolidation as a major impediment to adoption of the Cash Basis IPSAS. The objective of this limited scope review is to identify amendments that will facilitate adoption of the IPSAS. In forming its views below, staff has attempted to balance amendments that will reduce obstacles identified by the Task Force and ICGM, with the achievement of the objectives of financial reporting and satisfaction of the QCs of information included in GPFRs. That is a subjective process.
64. As noted above, staff is of the view that some relaxation of the consolidation requirements beyond the introduction of transitional provisions will be necessary to facilitate greater adoption of the Cash Basis IPSAS.
65. In addition to reducing obstacles to adoption, the objectives of this review include clarifying and reinforcing the IPSASB's view that accounting in accordance with the Cash Basis IPSAS is an intermediate step on the road to the accruals basis of financial reporting. Staff is of the view that of the approaches considered above, the relationship between the Cash Basis IPSAS and accrual basis IPSASs can best be retained by option (iii) Retain consolidation as a requirement but provide relief for practical obstacles. The objective and aspiration of reflecting the same group reporting entity as under the accrual basis is clearly and authoritatively stated, albeit that relief is provided for practical concerns as entities build to compliance with full suite of accrual IPSASs. However, the inclusion of a provision to reflect that legislation may override the requirements of the IPSAS, the ability to effectively reflect the circumstances in which relief may be available and the potential for different interpretations of those circumstances to give rise to differing views on whether compliance has been achieved reduces the desirability of this approach.

66. Consistent with the matters that are within the scope of this review, the current requirements in the IPSAS to report compliance with publicly available approved budgets remains in place. There is an expectation that in at least some jurisdictions, the entities encompassed by the approved budget of a government will be a useful, if not complete, representation of core government activities. Given that expectation, and the objectives of this review, staff is not convinced of the need to also require the preparation of GGS consolidated financial statements as reflected in IPSAS 24, or consolidated financial statements that encompass all budget or extra-budget entities. Staff is concerned that such a requirement may trigger some jurisdictional specific obstacles, particularly in any jurisdiction where legislative requirements may not directly align with a specified interim group reporting entity or jurisdictions that are transitioning to the accrual basis and have moved passed the interim group reporting entity. Rather, the IPSAS should allow, and acknowledge, that consolidated financial statements encompassing the budget sector or general government sector may be prepared and presented on the path to the full accrual basis.
67. As a result, it is the staff view that option (iv) *Refocus the section on consolidation procedures* is the approach that is likely to be most effective in achieving the IPSASB's objectives for this review. It responds to the concerns identified by the Task Force and, at least in part, to the proposals of the ICGFM. Once updated for any revisions to conform to IPSAS 35, it will maintain the consolidation procedures reflected in the accrual IPSASs and allow for the preparation of consolidated financial reports to reflect an interim group reporting entity as entities move towards full consolidation compliant statements. It may also be justified by reference to the Conceptual Framework approach to the concept of a reporting entity, including a group reporting entity.

#### **Matter(s) for Consideration**

1. The IPSASB is asked **to indicate** whether:
  - (a) It **supports** the staff views on the amendments to be made to the consolidation requirements; and
  - (b) Additional approaches to the revision of consolidation requirements should be **developed and considered**.

#### **External Assistance**

68. Part 1 of the Cash Basis IPSAS requires the disclosure of information about total external assistance received on the face of the Statement of Cash Receipts and Payments. Disclosure of the amount of assistance received in the form of third party payments, assistance received by way of loans and grants (and changes therein), the significant classes of providers and amounts of undrawn assistance is to be made on the face of the Statement or in notes. (See Extract 4 Cash Basis IPSAS paragraphs 1.10.8 to 1.10.25)
69. External assistance is limited to loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies and governments, or government agencies, of another nation. The definition of external assistance excludes assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding arrangement. (See Agenda Item 3.4, Cash Basis IPSAS paragraphs 1.10.1 and 1.10.3)

#### **4. Extract from the Cash Basis IPSAS Part 1 – Recipients of External Assistance**

##### **External Assistance Received**

**1.10.8** *The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.*

**1.10.9** *The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately:*

*(a) Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and*

*(b) Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs.*

*These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.*

**1.10.10** *Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.*

**1.10.11** *Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.*

##### **Undrawn External Assistance**

**1.10.18** *The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:*

*(a) total external assistance loans; and*

*(b) total external assistance grants.*

*Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.*

##### **Receipt of Goods or Services**

**1.10.21** *Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.*

##### **Disclosure of Debt Rescheduled or Cancelled**

**1.10.23** *An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.*

##### **Disclosure of Non Compliance with Significant Terms and Conditions**

**1.10.25** *An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.*

70. The requirements and encouragements for the disclosure of information about external assistance were added to the Cash Basis IPSAS in 2007. As the IPSASB contemplates its response to recommendations of the Task Force and issues identified by the ICGFM (noted below) it may be useful to briefly recap the development process of this addition to the cash basis IPSAS – given the extensive due process and input from a wide range of interested parties involved.

**Background – The development of the requirements and encouragements in the IPSAS**

71. The external assistance component of the Cash Basis IPSAS was developed in response to requests from, and with the support of, the OECD-Development Assistance Committee (OECD-DAC), the Multilateral Development Banks' Financial Management Harmonization Group (MDB-FMHG), and many recipients, donors and others from the financial reporting community, who saw a need for internationally agreed authoritative requirements for financial reporting of external assistance<sup>8</sup>.
72. It was developed after extensive consultation with a project advisory panel and constituents. That consultation included consideration of responses received from recipients of assistance in developing countries, from donor organizations and from professional accounting bodies to two EDs issued in:
- (i) February 2005: ED 24 *“Financial Reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance”*, and
  - (ii) November 2006: ED 32, *“Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance”*. This ED recast the required disclosures of ED 24 into required and encouraged disclosures much as reflected in the current IPSAS.
73. Prior to its issue, the proposed additions to the Cash Basis IPSAS were field tested by some developing countries to ensure that its requirements were practical and would not impose an inappropriate burden on reporting entities — and therefore could be justified on a cost-benefit basis. Responses from the field testers were positive and the IPSAS was approved by the IPSASB in late November 2007.
74. The summary of responses of ED 32 indicates there was strong support for requirements and encouragements as are currently reflected in the Cash Basis IPSAS. The more frequently raised issues or proposals related to:
- (i) Expanding the definition of external assistance to encompass assistance from NGOs - practical concerns (including accessing NGO data on a timely basis) persuaded the IPSASB to encourage rather than require disclosures of information about assistance from NGOs; and
  - (ii) Encouraging rather than requiring disclosure of the balance of undrawn assistance - for reasons that included concern about the cost and difficulty involved in compiling necessary

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<sup>8</sup> Many of these parties noted that providers of external assistance require recipients to follow a variety of accounting practices. This meant that in many cases recipients of assistance were required to prepare a number of special purpose reports to satisfy the reporting requirements of providers of assistance. The development of an IPSAS establishing generally agreed requirements for the disclosure of information about external assistance provided the prospect of reduced compliance costs if donors harmonized the detailed financial reporting requirements they require recipients to adopt within the broad parameters reflected in the requirements of an IPSAS.

information, because such information cannot be generated from the accounting records of the preparer itself, and because these amounts are not cash balances. It appears that in response to these concerns the circumstances in which undrawn assistance is required to be disclosed were clarified and somewhat narrowed.

### **The Task Force Report**

75. The Task Force report notes that three respondents expressed concern that accessing data necessary to satisfy requirements relating to external assistance gave rise to implementation issues in their jurisdiction. However, some respondents advocated repositioning some of the encouraged disclosure about the sources and uses of external assistance as required disclosures. (See Extract 5 below. Cash Basis IPSAS Part 2 paragraphs 2.1.66, 2.1.70 and 2.1.72). The Task Force Report notes that the inclusion of requirements for disclosures about the sources and use of external assistance funds as requirements was raised during the consultation undertaken by the IPSASB following the issue of ED 32 in 2006, and the PSASB was of the view that such disclosures had merit. However, such proposals had not previously been raised with the IPSASB or exposed for comment as part of the IPSASB's due process. Consequently, they were included as encouraged, rather than required, disclosures.

#### ***5. Extract from the Cash Basis IPSAS Part 2 — Recipients of External Assistance (Encouraged Disclosures)***

- 2.1.66 An entity is encouraged to disclose by significant class in notes to the financial statements:
- (a) *the purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*
  - (b) *the purposes for which external assistance payments were made during the reporting period.*
- 2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*
- 2.1.72 *In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, an entity is encouraged to disclose in notes to the financial statements:*
- (a) *each provider of loan assistance and grant assistance and the amount provided by each;*
  - (b) *the purposes for which the undrawn loan assistance and undrawn grant assistance may be used;*
  - (c) *the currency in which the undrawn assistance is held or will be made available; and*
  - (d) *changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*

The Task Force recommended that the IPSASB consider, in any due process documents proposing revisions to the Cash Basis IPSAS, whether the encouraged disclosures about the sources and uses of external assistance funds should be reclassified as required disclosures in Part 1 of the IPSAS. The Task Force also noted the complexities and sensitivities involved in recasting these encouraged disclosures as required disclosures, including that the encouraged disclosures are

extensive and may be viewed as special purpose disclosures responding to the needs of only the donor community.

### **The ICGFM submission**

76. As a general approach, the ICGFM proposes that the Cash Basis IPSAS be viewed as a subset of the accrual IPSASs and consistent with this view, the requirements of the Cash Basis IPSAS should be limited to those within the accrual IPSASs. The ICGFM submission points out that the required and encouraged disclosures in the Cash Basis IPSAS are more extensive and detailed than in accrual IPSASs<sup>9</sup>, and proposes that the requirements for disclosure of information about external assistance should be recast as encouraged disclosures only and moved to Part 2 of the IPSAS.
77. The ICGFM also notes that: “...the requirements for disclosure of information on external assistance are difficult to fulfil. This is one of the areas where Cash Basis GPFERS typically fail to fully comply with the Cash Basis Standard.” (ICGFM submission Agenda item 3.3(a))

### **Staff views – repositioning of requirements as encouragements**

*Reposition the requirements as encouragements to better align with the accrual IPSASs*

78. The requirements for disclosure of information about external assistance included in the Cash Basis IPSAS are more specific, detailed and extensive than those specified in the accrual basis IPSASs. However, IPSAS 1 “*Presentation of Financial Statements*” identifies a detailed list of items that are to be separately disclosed in the statements of financial position and financial performance under the accrual basis. This list includes an umbrella requirement that requires separate disclosures of additional matters when relevant:
- “Additional line items, headings, and subtotals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position”.*
- A similar requirement applies in respect of additional separate disclosures to be made on the face of the statement of financial performance when relevant to understanding performance. (IPSAS 1 paragraphs 89 and 104.)
79. While use of the Cash Basis IPSAS is not limited to entities in developing economies, staff anticipates that developing economies are those most likely to consider adopting the cash basis IPSAS. Indeed, the focus of the Task Force’s review was on identifying impediments to adoption of the Cash Basis IPSAS in developing economies, and this focus was reflected in those that provided input to the Task Force.
80. The governments of developing economies are, in many cases, dependent on multilateral or bilateral external assistance agencies or other governments or their agencies for resources. Staff is of the view that in these circumstances, the disclosure of information about external assistance received, used and available for use by governments and governmental entities in developing economies is likely to be relevant as input for accountability and decision making purposes, and

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<sup>9</sup> Only IPSAS 23 *Revenue from Non-Exchange Transactions* (Taxes and Transfers) refers to, and provides an example of, disclosure of information about external assistance, but it does not include specific disclosure requirements for external assistance.

therefore the achievement of the objectives of financial reporting. As such, staff is of the view that the retention of requirements for the disclosure of information about external assistance can be justified as fitting within the broad umbrella disclosure of IPSAS 1 noted above.

*Reposition the requirements as encouragements because necessary data often not available*

81. As noted above, respondents to ED 32 issued as part of the development due process were strongly supportive of the inclusion of required and encouraged disclosures about external assistance along the lines reflected in the IPSAS. There was also broad support for the demarcation between required and encouraged disclosures identified by those that provided input to the Task Force review<sup>10</sup>. As noted above, three respondents expressed concern about the ability to access to data to satisfy the requirements of the IPSAS, without providing details of their concerns. Of course these are responses to an ED issued in 2006 and the Task Force survey in 2009. Staff has received input from the TBG review of a draft of this paper and, in response to a request for additional information, from members of the ICGFM Ad Hoc Committee which indicates that their experience in the field is that the ability to comply with the requirements, and in some cases the encouragements, relating to external assistance is proving far more problematic than was originally anticipated. This input is noted below.
82. Many of the required disclosures relate to external assistance received as cash. It was anticipated that data to satisfy these requirements could be readily sourced from the entity's accounting records. In some cases, the requirements relate to circumstances which have given rise to rescheduling or cancellation of debt or grant funds. Again, it was anticipated that data to satisfy these disclosures was likely to be readily available.
83. Consistent with those expectations about the availability of necessary information, staff anticipated that concerns about access to data would relate to the requirement to disclose information about (a) undrawn external assistance loans and grants available for use in the future, and (b) external assistance in the form of third party payments. This is because data necessary to satisfy these requirements would not be readily generated from the accounting records of the reporting entity itself. Rather, input from donor entities and some judgments by recipients themselves would be necessary to, for example, identify what would qualify as undrawn assistance available to fund future operations and the amount of any third party payments made during the reporting period. However, the IPSAS provides some relief from these requirements when necessary information is not available. For example:
- (i) The circumstances in which the disclosure of undrawn assistance are required are specified tightly – that is such disclosures are to be made:  
  

*“...when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely” (paragraph 1.10.18); and*
  - (ii) The disclosure of information about external assistance in the form of third party payments is not required when necessary information is not readily available:

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<sup>10</sup>. Responses to the Task Force survey material indicated there was strong support for the requirements relating to the statement of cash receipts and payments and related note disclosures (28 responses supported as appropriate, 3 opposed with the remainder not expressing a view) and the demarcation between required and encouraged disclosures (21 responses supported the demarcation as appropriate - other responses did not express a view.)

*“These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.”* (paragraph 1.10.9 final sentence)

84. Consequently, staff formed the view that all the required disclosures about external assistance should not, as a block, be recast as encouraged disclosures. This was because of the broad support for the demarcation between required and encouraged disclosures identified by those that provided input to the Task Force review, and the importance of external assistance as a source of resources to many jurisdictions that may consider adoption of the Cash Basis IPSAS. Rather, staff was of the view that, subject to further input from IPSASB Members and the ICGFM on the existence of major impediments to complying with the required disclosures about external assistance, the existing disclosure requirements should be retained in the ED and a specific matters for comment in the ED should:
- (i) Highlight the conditions that must exist to trigger the requirement to disclose unused external assistance and third party payments;
  - (ii) Use a Specific Matter for Comment to seek input on whether such conditions overcome concerns that these requirements cannot be complied with because of lack of access to necessary data on a timely basis; and
  - (iii) Use a Specific Matter for Comment to seek input on whether any of the other required disclosures present major obstacles to adoption of the Cash Basis IPSAS.
85. However, as noted above, input from a TBG Member and other PFM experts indicates that the problems in complying with the requirements are more fundamental than those initially anticipated by staff. In particular, that while the rationale underlying at least some of the required and encouraged disclosures about external assistance appears sound and the intended outcome desirable (the disclosure of information useful for accountability and decision making purposes), they are not achievable in practice. This is because, the experience in some/many jurisdictions has been that the information recipients need to satisfy these requirements is still not made as readily available or accessible as was anticipated when these requirements and encouragements were exposed in ED32 and then included in the updated IPSAS in 2007. In addition, refocussing the requirements only on assistance received directly in the form of cash will not necessarily overcome any obstacle to adoption of the IPSAS — for example, information about the provider and nature of cash assistance provided through funds established to co-ordinate and manage contributions made by a range of multilateral and bilateral donor agencies and development banks may not be readily apparent to the recipient.
86. Members of the ICGFM Ad Hoc note that their personal experiences with application of the IPSAS, has been that in many/most cases it is not possible to access or verify the completeness and accuracy of information needed to satisfy requirements relating to third party payments, undrawn technical assistance and terms and conditions attached to particular grant or loan funds. However, their experience has been that it is feasible to disclose external assistance loans and grants received in cash from different sources. (See Agenda item 3.3(b)).
87. There is then a view emerging from those in the field that the external assistance requirements are not operating as was intended and expected, and that they represent a major obstacle to adoption of the IPSAS. While the IPSAS provides some relief from the requirements relating to third party payments and undrawn external assistance when information is not readily available, the extent to

which that relief is necessary may well undermine the usefulness of any disclosures that may be provided. In addition, it appears that information about other of the external assistance requirements may also be unavailable in some/many jurisdictions.

88. This project is in its early stage of development and wide consultation has not yet been undertaken – so some may have contrary views. However, staff finds the views of the TBG member, ICGFM submission and other PFM experts noted above persuasive – given their experiences in supporting implementation of the IPSAS. Consequently, staff is of the view that to achieve the objectives of this limited scope review of the Cash Basis IPSAS, some, if not all, of the external assistance requirements need to be, at least, recast as encouragements. Staff is of the view that for purposes of preparation of the ED there are two approaches that may be adopted:
- (i) Recast as encouragement all the requirements relating to external assistance except for paragraph 1.10.8 which requires the disclosure of total external assistance received in cash; and paragraphs 1.10.10 and 1.10.11, refined as necessary, to require disclosure of the significant classes of providers of external assistance in the form of cash and whether cash assistance was provided by way of loan or grant; or
  - (ii) Recast as encouragement all the requirements relating to external assistance and add commentary supporting paragraph 1.3.12 to note that for many entities the amount of external assistance received as cash is likely to warrant separate disclosure consistent with this requirement. Paragraph 1.3.12 establishes the broad requirement that the Statement of Cash Receipts and Payments should present total cash receipts and payments and major classes thereof as appropriate to the entity. (See Extract 6 Cash Basis IPSAS below)

**6. Extract from the Cash Basis IPSAS Part 1. Information to be Presented in the Statement of Cash Receipts and Payments**

**1.3.12 The statement of cash receipts and payments should present the following amounts for the reporting period:**

**(a) total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;**

**(b) total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and**

**(c) beginning and closing cash balances of the entity.**

89. The staff view is that approach (i) above should be adopted for the ED – that is, retain paragraphs 1.10.8, 1.10.10 and 1.10.11 as requirements and seek input on whether the information necessary to comply with these requirements is likely to be readily available. Staff favors this approach on the grounds that it is more difficult to add or reinstate requirements than it is to delete requirements or reclassify them as encouragements in the light of comments received as part of the due process.

***Additional disclosures about sources and uses of external assistance-***

90. The Task Force recommended that the IPSASB consider whether certain of the encouraged disclosures about the sources and uses of external assistance funds should be reclassification as required disclosures. Part 2 of the IPSAS encourages disclosure of, for example, the amount of external assistance provided by each provider, whether provided by way of grant or loan, the purposes for which assistance was provided and the amounts of assistance used during the reporting period. (See Extract 5 above. Cash Basis IPSAS Part 2 paragraphs 2.1.66, 2.1.70 and

2.1.72). Such disclosures will assist users of GPFRs to determine, for example, the extent to which an entity is dependent on particular providers for assistance and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. Such disclosure may well provide additional information useful for accountability and decision making purposes. Recasting these encouraged disclosures as requirements will ensure that such information is provided by GPFRs that comply with the IPSAS.

91. However, as noted by the Task Force, political and contractual sensitivities and complexities may well surround such disclosures. In addition, such disclosures may be of greater benefit to providers of external assistance themselves for compliance purposes than for users of GPFRS – that is, such disclosures are more in the nature of information that sits more comfortably in special purpose financial reports than in GPFRs. Consequently, they may be more usefully positioned as encouragements to be adopted as appropriate in particular jurisdictions as circumstances allow.
92. Staff is not convinced that recasting the encouraged disclosures as required disclosures is consistent with the objectives of this review, which is to reduce obstacles to adoption of the current IPSAS. Staff is concerned that the introduction of additional requirements, whatever their merit, may present additional obstacles to adoption. This is particularly so given the difficulty some recipients are experiencing in accessing information necessary to comply with the existing required disclosures. Consequently, staff is of the view that these encouraged disclosures should not be recast as requirements.

**Matter(s) for Consideration**

2. The IPSASB is requested to **indicate** whether it supports the staff view that:
  - (a) For purposes of the ED, certain of the requirements for external assistance should be recast as encouragements; and
  - (b) Encouraged disclosures, including those dealing with such matters as the amount and purpose of assistance provided by each provider, should not be recast as required disclosures

**Third Party Payments (also referred to as Third Party settlements)**

93. Part 1 of the Cash Basis IPSAS requires disclosure of the amount of payments by third parties to settle obligations of an entity or purchases of goods and services for the benefit of the entity in a separate column on the face of the Statement of Cash Receipts and Payments (See Extract 7 below. Cash Basis IPSAS paragraph 1.3.24). Issues related to the disclosure of information about third party payments that satisfy the definition of external assistance were considered in the previous section of this paper. Whether satisfying the definition of external assistance or not, the disclosure of prescribed information about third party payments is to be made only when the entity has been advised that the payment has been made, or the payment has been verified.
94. Concerns with the requirement to report information about third party payments, whether those payments satisfy the definition of external assistance or not, and any proposed amendments intended to address those concerns, are likely to have similarities. Consequently, matters raised in the previous section about the disclosure of information about external assistance provided by way of third party payments will also be relevant for matters considered below.

**7. Extract from the Cash Basis IPSAS Part 1: Payments by Third Parties on Behalf of the Entity  
Part 1 - Requirements**

**1.3.24 Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments:**

**(a) total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and**

**(b) total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operation.**

**Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.**

**Task Force Report**

*Disclosure of information about third party payments*

95. Two respondents to the Task Force survey identified third party payments as an impediment to adoption of the Cash Basis IPSAS and four respondents sought further guidance on the operation of these requirements. The Task Force commented that it was not convinced that some preparers fully understood that the final sentence of paragraph 1.3.24, and 1.10.9 in respect of third party payments in the form of external assistance, included relief from the disclosure requirements when information necessary to comply with the requirements was not available on a timely basis<sup>11</sup>. Those sentences specify:

*“Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.”* (see Extracts 4 and 7 above, paragraphs 1.3.24 and 1.10.9 –)

The Task Force expressed the view that such relief was *“an appropriate response to a significant practical issue in many jurisdictions”* and that the IPSASB could usefully highlight this in any guidance/explanation issue in respect of the Cash Basis IPSAS.

*Third party payments and external assistance in the form of goods or services*

96. Part 2 of the IPSAS encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services (Paragraph 2.1.90). Where an entity makes such disclose it is required to disclose in the notes the basis on which that value is determined. (See Extract 8. Cash Basis IPSAS Paragraph 1.10.21 below)
97. The Task Force noted that the distinction between third party payments and external assistance received in the form of goods and services and the type and location of the disclosures that are to be made about each is not well understood. The Task force recommended that the IPSASB clarify this relationship.

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<sup>11</sup> The Task Force report notes that some Task Force members had the opportunity to discuss, and confirm, points of misunderstanding directly with preparers and PFM experts in some jurisdictions.

**8. Extract from the Cash Basis IPSAS Parts 1 and 2: Goods and Services in Kind**

**Part 1 - Receipt of Goods or Services**

**1.10.21** Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.

**Part 2 – Encouraged additional disclosure**

**Assistance Received From Non-Governmental Organizations (NGOs)**

**2.1.64** Where practicable, an entity is encouraged to apply to assistance received from non-governmental organizations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.

**Recipients of External Assistance**

**2.1.90** An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.

**The ICGFM submission**

*Recast required disclosures as encouraged disclosures*

98. As noted above, the ICGFM is of the view that the Cash Basis IPSAS should not contain requirements that are more extensive or detailed than requirements in accrual IPSAS. The ICGFM notes that information about third party payments as required by Part 1 of the IPSAS is needed for fiscal control and resource allocation purposes, but notes that such detailed disclosures are not required by the accrual IPSASs. The ICGFM therefore advocates that the requirements should be moved to Part 2 of the Cash Basis IPSAS as encouraged additional disclosures.

*Additional Guidance*

99. The ICGFM proposes that the IPSAS should provide guidance on whether, and the circumstances in which, separate bank accounts established by development partners for payments relating to a particular program of assistance represent cash controlled by the reporting entity:

*“A problem is that it is common practice of development partners to establish separate bank accounts for payments relating to a particular programme of assistance. There is a grey dividing line as to whether such bank accounts are in fact public money of the entity, or are bank accounts not controlled by the entity but used by the development partner for third party payments on behalf of the entity. Factors such as signatories on and control over the use of the bank account need to be taken into account. At present the Standard provides no guidance or examples on how to draw the dividing line.” (ICGFM submission Agenda item 3.3(a))*

100. The ICGFM also advocates that where appropriate, this requirement should also be included in the accrual IPSASs.

**Staff Views**

*Requirements to disclose information about third party payments*

101. For national, state, local or other governments that are reporting entities, third party payments are likely to comprise mostly payments that satisfy the definition of external assistance or direct payments by other donors – for example by NGO’s. For government departments or agencies that are reporting entities and prepare a Statement of Cash Receipts and Payments, third party

payments will comprise amounts paid by a central agency where a government manages the expenditure of its departments and agencies through a centralized treasury function or a “single account” arrangement. Where departments or agencies are established with their own bank accounts third party payments may comprise payments made by other government departments to settle their obligations or to purchase certain goods or services on their behalf. In some cases, third party payments may comprise payments by parties which are not part of the economic entity to which the reporting entity belongs. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and suppliers for services and supplies provided to the provincial or municipal government.

102. In principle, the rationale for the disclosure of third party payments appears sound — for example, to ensure that the form of payment, whether as cash directly to the recipient reporting entity for the acquisition of goods or services or to the supplier of those goods or services, does not determine whether it is reported in the Statement of Cash Receipts and Payments. In addition, as noted above, there was strong support for this aspect of the external assistance requirements from constituents in the development process. There is then, a case that the broad requirement to disclose information about third party payments should be retained for the ED and a specific matter for comment could seek comment on whether this is supported.
103. However, many of the concerns about access to information necessary to satisfy the requirements for disclosure of information about external assistance in the form of third party payments are also likely to apply to third party payments more generally – particularly at the whole of government reporting level. It was these concerns that underpinned the staff view (above) that requirements related to external assistance in the form of third party payments should be recast as encouraged disclosures. Given these concerns, staff is of the view that the requirements in paragraph 1.3.24 (b) to disclose information about “*payments made by third parties which are not part of the economic entity to which the reporting entity belongs ...*” should also be relocated as encouraged disclosures. (See Extract 7 above. Cash Basis IPSAS paragraph 1.3.24 (b))
104. Recasting these requirements as encouragements responds to some concerns of the ICGFM. Its relocation may also go some way to overcoming concerns about the distinction between third party payments and assistance provided in the form of goods and service – because disclosure of these amounts is not required.

*Additional guidance on separate bank accounts established by development partners*

105. The Task Force Report notes that the inclusion of additional guidance on third party payments was amongst the specific technical enhancements and amendments proposed most frequently by respondents (two respondents identified it as an obstacle to adoption and four respondents sought more guidance on its application.)
106. The ICGFM has also identified this as an area where more guidance is required. Staff is of the view that the IPSASB should consider providing such guidance where possible.
107. Dealing with this matter may well respond to the concerns of some constituents that provided input to the Task Force review and reduce barriers to adoption of the IPSAS. This is consistent with the IPSASB’s objectives for this project. Subject to IPSASB agreement, staff will follow up with the ICGFM with a view to exploring and developing for Board consideration guidance that may be included in the Cash Basis IPSAS to respond to this concern. (Prior to the IPSASB meeting, staff

will review responses to the Task Force survey with a view to identifying the matters on which additional guidance was sought.)

*Third party payments and external assistance in the form of goods or services*

108. The inclusion of requirements to disclose third party payments on the face of the statement of cash receipts and payments moves beyond a pure cash basis as defined. As noted above, the rationale underlying such a requirement is clear and justifiable – to ensure that the form of payment does not obscure the substance of the transaction. However, it does appear that the need to distinguish these substantially cash flow transactions, from other circumstances in which a third party provides goods and services (rather than cash) has resulted in confusion.
109. Paragraph 1.10.7 outlines characteristics of third party agreements which appear to establish the distinction intended between third party payments and external assistance provided in the form of goods and services in kind. (See *Extract 9 below. Cash Basis IPSAS paragraph 1.10.7.*) Staff has formed the view that paragraph 1.10.7 intends that external assistance in the form of goods and services refer to circumstances in which the recipient was provided with goods and services under the terms of an external assistance agreement, but was not involved in the procurement process, including negotiation of technical, physical or other attributes of the goods or services provided with the supplier or specification of price – or at least was distanced from that procurement process. That is, the benefit provided was not in the form of payment for goods or service whose acquisition value had been agreed between recipient and supplier.

**9. Extract from the Cash Basis IPSAS Part 1: External Assistance Agreements**

**Commentary Paragraph**

1.10.7 External assistance agreements may provide for the entity to:

- (a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;
- (b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or
- (c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services in-kind to the recipient.

110. Staff is of the view that minor refinement to the text of paragraphs 2.1.90 and 2.1.91 as outlined below (with additional consequential amendments as appropriate) will assist in drawing the distinction between third party payments and external assistance in the form of goods or services in kind intended by paragraph 1.10.7 – albeit that it is likely that in some cases the distinction may well be a matter of judgement. Consequently staff propose amendments to the following paragraphs of the Cash Basis IPSAS:

2.1. 90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services in-kind.*

2.1.91 *Paragraph 1.10.7 explains that external assistance agreements may provide for the recipient entity to receive cash or request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient. This paragraph also acknowledges that, in addition to external assistance in the form of*

*cash or third party payments, an entity may also receive external assistance in the form of goods or services in-kind. Significant resources may be received under external assistance agreements in the form of goods or services provided directly to the recipient by an aid or donor agency. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.*

#### **Matter(s) for Consideration**

3. The IPSASB is requested to **indicate** whether it agrees or otherwise with the staff views and to provide directions for further development of this section of the ED, including additional or other matters to be addressed.  
  
Staff also requests IPSASB **approval** to seek input from the ICGFM regarding the inclusion of additional guidance in the IPSAS dealing with the classification of separate bank accounts established by development partners.

### **Housekeeping**

111. When the Cash Basis IPSAS was initially issued in January 2003 there were 20 IPSASs on issue. When issued, the requirements and encouragements in the Cash Basis IPSAS were largely consistent with the equivalent requirements of the accrual IPSASs. However, in some cases the Cash Basis IPSAS included requirements and encouragements that were more specific and detailed than in the equivalent accrual IPSASs. Such requirements were intended to, for example, draw out key features of cash balances and flows and attempt, through additional explanation, to bridge some of the gap to accrual data.
112. In 2006 and 2007 the Cash Basis IPSAS was updated with additional requirements and encouragements about the presentation of budget information and external assistance. IPSAS 24 *Presentation of Budget Information in Financial Statements* (issued December 2006) has not been updated since its issue. There is no accrual IPSAS which deals specifically with external assistance, though IPSAS 23, “*Revenue from Non-Exchange Transactions (Taxes and Transfers)*” encompasses accounting for external assistance received and, as noted by the ICGFM, makes brief mention of external assistance.
113. IPSASs 34 to 38 which deal with, for example, consolidated and separate financial statements and joint ventures and joint arrangements were issued in January 2015. Consequently, since issue of the Cash Basis IPSAS, 18 additional IPSAS have been issued, together with three Recommended Practice Guidelines. The Cash Basis IPSAS has been updated to encompass only one of those IPSASs (IPSAS 24). In addition, each of the 20 IPSASs on issue at January 2003 have been updated (or in one case, withdrawn) to reflect changes to the equivalent IAS/IFRS, to acknowledge issue of new IPSASs that impact their requirements and/or for other technical and format improvements. Since its issue, the Cash Basis IPSAS has not been subject to a review to ensure that its requirements and encouragements do not run contrary to the requirements in the amended accrual IPSASs that it was originally derived from.

## **The Task Force**

### *Part 1 of the Cash Basis IPSAS*

114. The Task Force noted that some respondents identified the need for the Cash Basis IPSAS to be reviewed and, as appropriate, updated for developments in financial reporting since its initial issue – *“such a review would include revisiting and “refreshing” requirements and the encouraged disclosures for changes and developments in the equivalent accrual IPSASs”*. The Task Force recommended that the requirements of Part 1 of the Cash Basis IPSAS be subject to housekeeping *“to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs”*.
115. The Task Force was directed to make recommendations to the IPSASB on whether the Cash Basis IPSAS should encourage or require any additional disclosures about financial instruments, and the nature of those disclosures. It concluded that such disclosures should not be included as either required or encouraged disclosures in the Cash Basis IPSAS. The Task Force noted it was:
- “...concerned that to do so would present an additional impediment to adoption of the Cash Basis IPSAS – for example, it would significantly increase the size of the Cash Basis IPSAS, compounding existing concerns that it is already too long. The Task Force is also of the view that for many jurisdictions, the disclose of information about liabilities and assets more broadly remains a priority – as such including extensive disclosure requirements about only financial instruments is not justified.” (See Task Force Report Agenda Item 3.2 page 31)*
116. The Task Force also noted that respondents to the project questionnaire and those participating in round-table discussions and similar forums did not advocate the addition of requirements or encouragements on financial instruments to the Cash Basis IPSAS.

### *Part 2 of the Cash Basis IPSAS*

117. The Task Force did not recommend updating Part 2 as part of a housekeeping exercise:
- “The Task Force is of the view that operation of Part 2 of the Cash Basis IPSAS raises substantial issues of that go beyond mere housekeeping issues.” (See Task Force Report Agenda Item 3.2 page 26)*
118. The Task Force was of the view that Part 2 adds unnecessarily to the length and complexity of the IPSAS (a matter of concern to some respondents) and may not be effective in achieving the objective intended. This is because: *“... the encouraged disclosures that are intended support the transition to the accrual basis IPSASs are, in some cases, out of date. Therefore to continue to monitor and update the encouraged disclosures will consume considerable IPSASB resources with questionable return.” (See Task Force Report Agenda Item 3.2 page 32)*
119. The Task Force recommended that Part 2 of the Cash Basis IPSAS be deleted with explanation of matters such as “administered transactions” and “pass-through accounts” which directly support application of the cash basis requirements in Part 1, being relocated to Part 1 of the IPSAS. Other aspects of Part 2 could then be established as a separate resource or as part of any update of *Study 14 Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*.

*ICGFM*

120. While not specifically addressed in the submission, staff anticipates that the ICGFM support retention and further development of Part 2, with the repositioning of some requirements to encouragements.
121. Staff has followed up with members of the ICGFM Ad Hoc committee to seek their personal views on whether Part 2 of the Cash Basis IPSAS performs a useful function. Those members confirm that they are strong supporters of retention of Part 2 of the Cash Basis IPSAS because it enables reporting entities to move beyond a pure cash basis reporting model whilst still remaining compliant with the IPSAS. This supports the transition to the accrual basis and ensures that any information reported in notes to the financial statements will comply with the QCs identified in the IPSAS and, as appropriate, relevant accrual IPSASs. They also note that Part 1 and Part 2 of the Cash Basis Standard are translated at the same time, while Study 14 is seldom translated. Consequently, “...many persons involved in the preparation of financial statements are not aware of the contents of Study 14”. (See Agenda item 3.3(b).)

*Staff Views*

*Housekeeping and the relationship between the Cash Basis IPSAS and Study 14*

122. Staff appreciate that “housekeeping” may be interpreted in different ways and the IPSASB has not yet discussed this in detail. The following is then intended to provide one view of what housekeeping may encompass and, therefore, input to the IPSASB’s discussion of this matter.
123. Within the context of this limited scope review, staff has interpreted “housekeeping” to mean only amendments to ensure requirements and encouragements in the existing Parts 1 and 2 of the IPSAS are not in conflict with the accrual IPSASs that deal with those matters. This of course is a minimalist view of what housekeeping may encompass. A broader view of housekeeping would bring into play consideration of whether Parts 1 and 2 should include required and encouraged disclosures about certain cash flows and balances that may be derived from all “new” IPSASs. Staff is of the view that while perhaps useful in themselves, amendments that would add additional requirements or encouragements to the existing Cash Basis IPSAS derived from new or reissued accrual IPSASs would constitute more than mere “housekeeping” matters and, therefore, are outside the scope of this limited review. Such revisions may also have unintended consequences and introduce additional obstacles to adoption.
124. In this context, it may be appropriate to note that staff is drawn to the Task Force recommendation that Part 2 of the IPSAS be disengaged from Part 1 and established as a separate resource or linked to Study 14 (See Task Force Report recommendation 11 Agenda Item 3.2 pages 32 and 33). Study 14 includes guidance<sup>12</sup> to assist entities transitioning from the cash basis (and other bases) to the accrual basis on IPSASs. The third addition was issued in January 2011 and includes an appendix which identifies the relevance of IPSASs, and some other matters not yet addressed in IPSASs, to the Cash Basis IPSAS. That Appendix encompasses 12 of the IPSASs issued subsequent to issue of the Cash Basis IPSAS. Staff is of the view that updating Study 14 to deal

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<sup>12</sup> “The Study is primarily intended to assist public sector entities transitioning from the cash to the accrual basis but it may also be useful for entities currently reporting on an accrual basis and considering the adoption of IPSASs or entities complying with the financial reporting requirements of the Cash Basis IPSAS Financial Reporting Under The Cash Basis of Accounting and disclosing certain accrual basis information.” (Study 14 Introduction paragraph)

with the implications of “new” IPSASs and Recommended Practice Guidelines (RPGs) for the transition to the accrual basis is likely to be a more resource efficient mechanism to acknowledge those IPSASs and RPGs than amending the Cash Basis IPSAS. This is because it brings together in Study 14 guidance on the transition from the Cash Basis IPSAS to the accrual basis, and separates such guidance from the requirements of the Cash Basis IPSAS which is intended to establish a base for such transition. This would also avoid the risk that amendments to the Cash Basis IPSAS as part of this review would render some existing guidance in Study 14 out of date or no longer accurate.

125. However, staff notes the comments of those that support retention of Part 2, and appreciates that whether Part 2 of the Cash Basis should be retained as part of the IPSAS is not within the scope of this review. Consequently, the following consideration of “housekeeping” matters is predicated on the assumption that, for the foreseeable future, Part 2 of the IPSAS will remain in place.

### Overview of Housekeeping Amendments

126. Staff views on aspects of the Cash Basis IPSAS that should be amended and “refreshed” as part of a housekeeping review are noted below. For the most part, the need to amend aspects of the IPSAS to remove conflicts with extant IPSASs will be observable and clear. However, in some cases, whether aspects of the IPSAS need to be refreshed to better reflect the sense of updated IPSASs may involve some judgement. In making recommendations about amendments staff has considered (a) how onerous any changes in requirements are likely to be to any entities that currently adopt the cash basis IPSAS; and (b) whether applying the updated version of the equivalent IPSAS are likely to add barriers to adoption.
127. An initial review of the IPSASs on issue when the Cash Basis was issued (IPSASs 1 to 20) indicates that many of the amendments do not impact on requirements and encouragements in the Cash Basis IPSAS – rather they deal with matters of format or matters that impact on measurement, recognition or presentation in accrual based GPFRs. However, in some other cases, amendments to the Cash Basis IPSAS are necessary to remove technical inconsistencies and conflicts. Staff is still building its inventory of changes to IPSASs 1 -20 that are likely to impact the Cash Basis IPSAS – so the following is still a work in progress. Staff will provide an update at the forthcoming meeting as its review progresses. Staff also welcomes input from the IPSASB on additional areas of the Cash Basis IPSAS that need to be reviewed and potentially updated to reflect the requirements of IPSASs currently on issue.

#### *Format and terminology*

128. Some changes in format and terminology can usefully be adopted to align the style of the Cash Basis IPSASs with contemporary accrual IPSASs – for example, the objective paragraphs of IPSASs were formerly established as introductory paragraphs but have now been recast as the first paragraph of the IPSAS. Similarly, the term *financial reporting entity* used in the Cash Basis IPSAS has been replaced with *reporting entity* or *economic entity* as appropriate. Staff proposes these and similar terminology changes be included in the ED, subject to any updates on the use of *economic entity* as noted below.
129. However, staff is of the view that amendments to reflect some other format changes are more problematic. For example, the Cash Basis IPSAS was established, and in staff's view is used, as a stand alone IPSAS. Consequently, linkages to the *Preface to International Public Sector Accounting*

*Standards* are not as strong, or perhaps as obvious, to users of the Cash Basis IPSAS as they are to accrual IPSAS adopters. The observation that “*International Public Sector Accounting Standards are not intended to apply to immaterial items*” formerly stood as an introductory comment to all IPSASs. It has now been relocated to the *Preface to International Public Sector Accounting Standards* (Preface, paragraph 11). Staff do not propose that the Cash Basis IPSAS be amended for this or other format changes that may reduce its operation as a stand alone IPSAS.

*Revising the accrual IPSASs to conform with the Conceptual Framework*

130. A project on updating the accrual IPSASs for changes necessary to conform terminology and explanation with Phase I of the Conceptual Framework was approved at the March 2015 meeting. Phase 1 of the Conceptual Framework identifies the users and objectives of GPFs and QCs of information included in GPFs. It explains that the IPSASB will apply the concepts in developing IPSASs and RPGs applicable to general purpose financial reports (GPFs) of public sector entities. An ED identifying proposed changes in terminology and explanation necessary to conform IPSASs to the Framework is being developed for consideration at the June 2015 meeting. This project has potential implications for the Cash Basis IPSAS as outlined below.
131. The Cash Basis IPSAS refers to general purpose financial statements (GPFs) rather than general purpose financial reports (GPFs) as used in the Conceptual Framework. The term GPFs is currently used in IPSAS 1 and in some other IPSASs. The Cash Basis IPSAS was, to a large extent, derived from IPSAS 1. Staff anticipates that use of GPFs will be standardized throughout IPSASs where appropriate as the project to converge IPSASs with the Framework gains momentum.
132. Part 1 of the Cash Basis IPSAS includes reference to the users and objectives of financial reporting and the QCs of information included in GPFs. These were based on, and largely reflect the wording of, the objectives and QCs included in accrual IPSASs (IPSAS 1 and the Appendix A thereto) on issue in 2003. The Conceptual Framework was developed for application in developing accrual IPSASs. However, staff is of the view that the objectives of financial reporting and QCs identified in the Framework have wider application than just for accrual basis GPFs. They are already largely reflected in the Cash Basis IPSAS as far as is possible within the limits of cash basis financial reports. There is then a case that the IPSASB should take the opportunity of this review to update and align the explanation of GPFs and users thereof, objectives of financial reporting and the QCs in the Cash Basis IPSAS to reflect the Conceptual Framework.
133. Staff proposes that the introductory paragraphs of the Cash Basis IPSAS and, if appropriate, other text in the IPSAS be revised to reflect wording used in the Conceptual Framework as part of this housekeeping update. To this end staff will monitor the development of the ED to update the accrual IPSASs for the Conceptual Framework and amend terminology in the Cash Basis IPSAS as appropriate.

***Cash Basis IPSAS Part 1 - Requirements***

*Government Business Enterprises (Cash Basis IPSAS Paragraphs 1.1.5 - 1.1.7)*

The Cash Basis IPSAS includes the standard paragraph included in current accrual IPSASs noting that it “...*applies to all public sector entities other than Government Business Enterprises*”.

134. The commentary paragraphs 1.1.6 and 1.1.7 of the Cash Basis IPSAS include the “old” format for explaining the exclusion of *Government Business Enterprises* (GBE’s) from the scope of IPSASs.

(See Extract 9. Cash Basis IPSAS below.) This format has been updated since issue of the Cash Basis IPSAS. In addition, the definition of GBE's and the explanation of any exclusion of GBE's from the scope of IPSASs is currently subject to further review, with a draft exposure draft to be considered at the June 2015 meeting. It is then also timely to revisit and, as appropriate, revise this explanation in the ED of the Cash Basis IPSAS.

## 9. Extract from the Cash Basis IPSAS Part 1.

### Scope of the Requirements

- 1.1.1** *An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.*
- 1.1.5** *This Standard applies to all public sector entities other than Government Business Enterprises.*
- 1.1.6 The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 1.2.1 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).
- 1.1.7 The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

135. As noted previously, the Cash Basis has been established as a stand alone IPSAS with no cross references to definitions included in accrual IPSASs and less dependence on the Preface to explain matters relevant to its application. Rather relevant text from the Preface is included in the IPSAS itself. Consistent with the stand alone nature of the Cash Basis IPSAS, the current reference to exclusion of GBEs could be deleted and the revised approach to explaining entities that should apply IPSASs included in the ED. However, on reflection, staff is not convinced that text from the Preface, or indeed a reference to the relevant sections of the Preface that describe entities that apply IPSASs, is necessary. This is because the first paragraph (paragraph 1.1.1) makes it clear that the Cash Basis IPSAS applies only to entities that adopt the cash basis of accounting. Consequently, staff propose that commentary paragraphs 1.1.5 — 1.1.7 be deleted without replacement text and paragraph 1.1.1 be revised to make it clear that it applies to public sector entities as follows:

*1.1.1 A public sector entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.*

*Correction of errors (Paragraphs 1.5.1 – 1.5.5)*

136. IPSAS 3 “*Accounting Policies, Changes in Accounting Estimates and Errors*” has been updated in a number of respects since issue of the Cash Basis IPSAS. The approach to dealing with prior period errors as it impacts the Statement of Cash Receipts and Payments (and additional financial statements which may be voluntarily presented as part of a cash basis GPFR) under IPSAS 3 is broadly the same as in the Cash Basis IPSAS — for example, opening balances are adjusted, comparative information is adjusted unless impracticable and disclosures about the such matters as the nature of the error and amounts of adjustment are made. However, the current IPSAS 3 does

clarify that if the error occurred before the earliest prior period presented, adjustments are to be made to the opening balances of the earliest prior period presented.

137. In addition, the current IPSAS 3 uses and defines the terms “prior period errors” rather than simply “errors”, requires that the amount of the error for each line item be identified, provides more detailed guidance on making corrections in certain circumstances and requires some additional disclosures. While not necessarily inconsistent with the revised IPSAS 3, the requirements of the Cash Basis IPSAS are less specific and detailed than those of the revised IPSAS 3.
138. Staff is not convinced that amendments to the Cash Basis IPSAS to reflect all the requirements and guidance in IPSAS 3 are necessary or would satisfy the notion of merely housekeeping. However, given that the Cash Basis IPSAS is to be placed firmly as a stepping stone in the transition to the accrual basis, staff propose that the draft ED prepared for discussion at the next meeting update terminology and include the IPSAS 3 clarifications and additional requirements. This will provide a basis for the IPSASB’s consideration of whether all aspects of the revised IPSAS 3 should also be included in the Cash Basis IPSAS as a matter of housekeeping.

*Definition of economic entity (Paragraph 1.3.1) and Section 6 Consolidated Financial Statements (Paragraphs 1.6.1 –1.6.20)*

139. IPSAS 35 “*Consolidated Financial Statements*” includes substantial changes to the version of IPSAS 6 “*Consolidated and Separate Financial Statements*” which was on issue when the Cash Basis IPSAS was released. Subject to the IPSASB’s decision on the approach to consolidation to be adopted in the Cash Basis IPSAS, changes to the current Cash Basis IPSAS may/will be necessary to align with the equivalent accrual IPSAS. These will include amendments to align definitions and explanation of control and the circumstances in which a controlling entity is not required to prepare and present consolidated financial statements. It will also include revisions to the definition of economic entity and consequential amendments to commentary paragraphs. In addition, if agreed by the IPSASB, relevant amendments proposed in the ED updating the accrual IPSASs for conformity with the Conceptual Framework terminology, including for example any changes from use of the term “*economic entity*” to the term “*group entity*” or similar, will also be reflected in the Cash Basis ED.

*Foreign Currency (Paragraphs 1.7.1 – 1.7.8)*

140. IPSAS 4 “*The Effects Of Changes In Foreign Exchange Rates*” has been updated in a number of respects since issue of the Cash Basis IPSAS. The major differences likely to impact the Cash Basis IPSAS are:
- (a) The introduction of additional definitions (such as functional currency, presentation currency and spot exchange rate) and consequential amendments to existing definitions; and
  - (b) Their application to cash flows (and third party payments if retained) arising from transactions in a foreign currency during the period, and cash balances held in foreign currencies at reporting date.
141. IPSAS 4 requires translation to functional currency (the currency of the primary economy in which the entity operates) when the foreign currency transaction occurs occur. It permits the currency in which the financial statements are presentation (the presentation currency) to be any currency. For accrual based reporting it specifies how the financial position and performance of controlled entities and joint ventures which operate in different functional currencies are translated for purposes of

presentation of consolidated financial statements. These amendments will impact the mechanism for translating the cash flows and balances of such controlled entities and joint ventures identified in the Cash Basis IPSAS.

142. Staff propose that the foreign currency requirements and encouragements in the cash basis IPSAS be revised and as appropriate amended to ensure that they are not in conflict with IPSAS 4. Consequential amendments to Part 2 “Financial Reporting in Hyperinflationary Economies” (Cash Basis IPSAS paragraphs 2.1.51 to 2.1.63) will also be processed)

**Cash Basis IPSAS Part 2 – Encouraged Disclosures**

143. Revisions to Part 1 to reflect any changes in requirements, terminology and explanation as part of the housekeeping process will also be reflected in Part 2 as appropriate. Part 2 will also be revised and updated to reflect decisions of the IPSASB regarding consolidation, external assistance and third party payments. The following identifies additional aspects of Part 2 that in staff’s view are likely to require updating as part of the housekeeping review.

*Definitions (Paragraph 2.1.1)*

144. Paragraph 2.1.1 includes a listing of defined terms used to identify the additional disclosures encouraged by Part 2. The majority of these definitions are reflected in IPSASs currently on issue except that the definition of *financial asset* has been further developed since issue of the cash Basis IPSAS. IPSAS 15, “*Financial Instruments: Disclosure and Presentation*” from which the definition in the Cash Basis IPSAS was drawn has been superseded by IPSAS 28, “*Financial Instruments: Presentation*” IPSAS 29, “*Financial Instruments: Recognition and Measurement*”; and IPSAS 30, “*Financial Instruments: Disclosures*”. However, the defined term financial asset is not used in the remainder of Part 2 of the Cash Basis IPSAS and disclosure of information about financial assets, however defined, is not specifically encouraged.
145. Subject to the IPSASB’s decision on inclusion of encouraged disclosures about IPSASs issued subsequent to issue of the Cash Basis IPSAS, including IPSASs dealing with financial instruments, staff propose that the term financial asset be removed from the listing of defined terms.

*Ordinary and extraordinary items (Paragraphs 2.1.1, 2.1.6 – 2.1.14)*

146. Ordinary and extraordinary items are defined in Part 2 of the Cash Basis IPSAS. Part 2 encourages disclosure of the nature and amount of extraordinary items and includes commentary to explain the nature of such items. IPSAS 1 “*Presentation of Financial Statements*” (issued in 2000), which was on issues when the Cash Basis IPSAS was issued, required disclosure of extraordinary items of revenue and expense on the face of the statement of financial performance and the separate disclosure of surplus arising from ordinary and extraordinary transactions and events. IPSAS 2 *Cash Flow Statements* (issued in 2000) and IPSAS 3, “*Accounting Policies, Changes in Accounting Estimates and Errors*” (issued in 2000) also required separate disclosure of extraordinary items. The definitions of extraordinary items and related requirements have now been removed from IPSAS 1 – IPSAS 1 does not require, encourage or prohibit disclosure of extraordinary items. References to extraordinary items in IPSAS 2 and IPSAS 3 have also been removed since issue of the *Cash Basis IPSAS*.
147. Staff proposes that the definitions and references to extraordinary items be deleted from Part 2 to reflect the amendments to IPSAS 1, 2 and 3 since issue of the Cash Basis IPSAS.

*Broad references to accrual IPSASs (Paragraphs 2.1.31 – 2.1.35, 2.1.49 – 2.1.50)*

148. Part 2 encourages the note disclosure of information required by IPSASs dealing with related party disclosures (paragraph 2.1.31 – 2.1.32) and joint ventures (paragraphs 2.1.49 – 2.1.50), and briefly comments on the types of disclosures that might result. On initial review, it appears that only minor amendments to these encouragements appear necessary to reflect the issue of IPSAS 37, “*Investments in Associates and Joint Ventures*” and revisions to IPSAS 20, “*Related Party Transactions*” since issue of the Cash Basis IPSAS.

149. Paragraph 2.1.33 currently encourages the note disclosure of assets and liabilities, and refers readers to certain accrual IPSASs for guidance about additional disclosures that may be made consistent with the accrual IPSASs on issue (see, for example, paragraphs 2.1.33 – 2.1.35). Paragraph 2.1.35 explains:

*Accrual basis IPSASs including IPSAS 13 Leases, IPSAS 17 Property, Plant and Equipment and IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets can provide useful guidance to entities disclosing additional information about assets and liabilities.*

150. Staff is of the view that, as appropriate, adding recently issued IPSASs to this list of accrual IPSASs may serve as a holding mechanism pending the next update of Study 14 and any further consideration of the role of Part 2 of the Cash Basis IPSAS.

151. The Task Force reported that some respondents proposed that the Cash Basis IPSAS include requirements for disclosure of additional information about service outcomes (3 responses). While unlikely to satisfying these respondents, staff propose that the issue of RPG 3 “*Reporting Service Performance Information*” also be acknowledged under suitable heading in Part 2.

*Financial Reporting in Hyperinflationary Economies (Paragraphs 2.1.51 – 2.1.63)*

152. Part 2 encourages an entity that reports in the currency of a hyperinflationary economy to restate its Statement of Cash Receipts and Payments, any other financial statements presented and comparative information in the measuring unit current at the reporting date. It provides guidance on the processes to be adopted and disclosures to be made. The encouragement and related guidance reflects the requirements and guidance in IPSAS 10, “*Financial Reporting in Hyperinflationary Economies*” (issued in 2001). On initial review, it appears that only minor refinements to the guidance is necessary to reflect revisions IPSAS 10 (and IPSAS 4) since issue of the Cash Basis IPSAS.

*Entities intending to migrate to the accrual basis (Paragraphs 2.2.1 – 2.2.2)*

153. Part 2 encourages an entity which intends to migrate to the accrual basis of accounting to present a statement of cash receipts and payments in the same format as that required by IPSAS 2 “*Cash Flow Statements*”. Paragraph 2.2.2 provides a brief overview of key features of IPSAS 2. Little if any amendment to this paragraph is necessary to ensure there is no conflict with revisions made to IPSAS 2 since issue of the *Cash Basis IPSAS*. As noted below, Appendix 3 outlines key aspects of IPSAS 2 and provides guidance on their application. Appendix 3 will be reviewed to ensure it remains consistent with the current IPSAS 2.

*Appendices*

154. Appendix 1 illustrates requirements of Part 1 of the IPSAS and Appendix 2 illustrates encouraged disclosures. These appendices will be reviewed and updated to ensure they remain aligned with

IPSASB decisions regarding consolidation, external assistance, third party payments and matters to be encompassed by the housekeeping update.

155. Appendix 3 includes a detailed summary of key aspects of IPSAS 2 and guidance on the preparation of a Statement of Cash Receipts and Payments that is consistent with the requirements of the Cash Basis IPSAS and also reflects the format required by IPSAS 2. Appendix 4 summarizes the QCs and Appendix 5 outlines factors to be considered in establishing whether an entity is controlled for financial reporting purposes. These appendices will be reviewed and updated to reflect the requirements and guidance in the current IPSAS 2, IPSAS 35 and the Conceptual Framework.

**Matter(s) for Consideration**

4. The IPSASB is requested to **confirm or otherwise**:
- The approach to “housekeeping” proposed by staff; and
  - The specific matters for revision identified by staff.
5. The IPSASB is also requested to **provide input** on any additional aspects of the Cash Basis IPSAS that should be subject to a housekeeping review.

**Communication Strategy**

156. The IPSASB has also directed that the issue of any ED is to be supported by a communication strategy that explains the IPSASB’s reason for launching the project and how the Cash Basis IPSAS fits with the IPSASBs strategic objectives.
157. The release of the ED proposing revisions to the Cash Basis IPSAS will, as usual, be supported by media releases and related material outlining the background to, and objectives of, the project and the role of the Cash Basis IPSAS in the transition to the accrual basis. It is also proposed that commentary be added to the introductory sections of the ED and then the final revised IPSAS to explain the role of the Cash Basis IPSAS and its relationship to Study 14 and IPSASB’s longer term strategic objectives. While perhaps repetitive of matters dealt with in material supporting the release of the ED, inclusion of such commentary in the introductory sections of the proposed IPSAS is intended to ensure that the message is retained as the ED becomes an IPSAS and the supporting documentation is shed.
158. The Technical Director is currently engaging with the *Accountability Now* team to staff to ensure this project is on their radar and to pursue mechanisms to support and promote release of the ED.
159. It is proposed that other components of the communication package will include the following:
- (i) Providing an “information sheet” for dissemination through IFAC communication channels to member bodies and their constituencies, particularly in developing economies. That information sheet will note initiation of this review, its objectives and intended timelines. It is hoped that such information will assist constituencies to marshal support on a regional or other collaborative basis as appropriate, and prepare to respond to the ED when issued;
  - (ii) Where possible, provide information and material to support the activities of the IPSASB’s Public Interest Committee, IPSASB Observers and the ICGFM in promoting the issue of the ED and the objectives of this review; and

- (iii) Presentations at relevant forums by Members and staff. With the support of Members and the IFAC communication team, staff will develop a listing of potential national, regional and international forums to promote issue of the ED. Staff will also develop a support package of material including power point display and talking points that may be useful input for any presentations. In this context, Members are requested to provide staff with advice on presentation opportunities and other communication initiatives that are likely to arise in their jurisdiction during the project development period.

**Matter(s) for Consideration**

6. The IPSASB is requested to **indicate** whether it agrees with the broad outline of the communication strategy proposed and/or whether additions and or modifications to that strategy are necessary.

**Next Meeting and Structure of the Draft ED**

160. Staff proposes that at the next meeting a first draft of the ED reflecting Member's decisions be discussed.
161. On completion of discussion at this session, staff would like to take an initial sounding of Members' views on whether an ED of the full Cash Basis IPSAS marked up for proposed changes should be issued, or whether the ED should comprise only the sections subject to more than simple editorial amendment. This will of course determine the nature of the document prepared for Members' consideration at the next meeting.
162. Staff is of view that the ED should focus sharply on only the matters that are subject to this limited scope review – given that input is not sought on other matters. However, staff acknowledges that IPSAS decisions regarding the matters that are to be encompassed by the housekeeping review may draw in broad sections of the IPSAS, and a sharply focused ED may not be appropriate.

**Matter(s) for Consideration**

7. The IPSASB is requested to **provide initial views** on the structure of the draft ED to be prepared for consideration at the next meeting.

# **Review of the Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting”**

## **Report of The Task Force**

**29 May 2010**

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**IFAC IPSASB Meeting**  
**June 2010- Vienna Austria**  
**Review of the Cash Basis IPSAS – Report of the Task Force (May 2010)**

**Agenda Paper 6.1**  
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## EXECUTIVE SUMMARY

The IPSAS “Financial Reporting under the Cash Basis of Accounting” (the Cash Basis IPSAS) was first issued in January 2003. It includes both mandatory requirements and encouraged disclosures. Since first issued, it has been updated with additional requirements and encouragements about the presentation of budget information and external assistance received.

The International Public Sector Accounting Standards Board (IPSASB) approved this review of the Cash Basis IPSAS in November 2008.

The primary objective of the review is to identify any major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS and determine whether it should be modified, or if further guidance should be provided, in light of these difficulties. The review is also to consider whether additional reporting requirements should be added to the Cash Basis IPSAS and whether any of the encouraged disclosures in Part 2 should be included as mandatory requirements.

During December 2008, a Task Force was appointed to lead the data collection and analysis stages of the project and make recommendations to the IPSASB on modifications/improvements to the Cash Basis IPSAS that it considers appropriate.

The Task Force adopted a two stage process for data collection and identification of issues. The first stage was the issue of a project questionnaire seeking input on broad implementation issues. The second stage was to involve “follow-up” discussions with respondents to the questionnaire and other interested parties on a one-to-one basis, or in regional round-table forums or conferences.

A total of 46 responses were received to the questionnaire. Respondents included accountants-general, auditors-general, accounting bodies and others in 34 countries. Responses were also received from officers of one state government, two regional or international representative bodies and four international public finance management experts.

Opportunities for follow-up discussion with respondents in round-table forums and conferences were more limited than had been anticipated. Consequently, Task Force members and staff made use of their contacts at Ministries of Finance and other government organizations, and with PFM experts to further explore matters raised in responses to the questionnaire.

Respondents confirmed that the Cash Basis IPSAS is not widely adopted. The most frequently identified obstacles to its adoption are application of a “pure” cash basis model and the requirement for full consolidation. Differences between the Cash Basis IPSAS and existing legislation and practice, and the need for additional training and support are also identified as significant obstacles to its adoption.

Some respondents also identified specific “technical” requirements that give rise to implementation issues in their jurisdiction. The requirements that are more frequently identified as of concern are those relating to comparisons with budget, third party settlements, external

assistance and timing of issue of financial statements. Some respondents also express concern that the size and structure of the Cash Basis IPSAS is not user friendly.

The Task Force Recommendations on these and other matters are noted below.

*SCHEDULE OF RECOMMENDATIONS*

**1. The Task Force recommends that:**

- The Cash Basis IPSAS should be retained, subject to modifications and restructuring as proposed in other recommendations in this Report.
- The role of the Cash Basis IPSAS and Study 14 in supporting the movement along the spectrum from the cash to the accrual basis of financial reporting should be clarified and reinforced. (Page 18)

**2. The Task Force recommends that:**

- An IPSAS dealing with the modified cash or modified accrual basis should not be developed.
- The IPSASB should join with other international and national organizations to develop guidance on what may be encompassed under the modified cash and modified accrual bases of financial reporting. Subject to the timing and process of development of such guidance, it may be included in, or referenced by, future updates of Study 14. (Page 20)

**3. Task Force recommends that:**

- The requirements for consolidation currently reflected in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been developed and their implications for the Cash Basis IPSAS can be considered.
- The Cash Basis IPSAS should provide for reporting of cash receipts, cash payments and cash balances of the budget sector, or other representation of the core government as adopted in the jurisdiction, as well as the whole of government.
- The Cash Basis IPSAS should include a transitional period of, for example, 3–5 years from its first adoption within which full consolidation is to be achieved. (Page 22)

**4. The Task Force recommends that:**

- Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs. (Page 23)

**5. The Task Force recommends that:**

- The anticipated period for issue of the financial statements as explained in paragraph 1.4.14 should not be amended. (Page 24)

**6. The Task Force recommends that:**

- The IPSASB clarify the relationship between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures to be made about each. (Page 25)

**7. The Task Force recommends that:**

- Certain of the encouraged disclosures about the sources and uses of external assistance funds currently included in Part 2 of the Cash Basis IPSAS be considered for reclassification as required disclosures and included in Part 1 of the IPSAS. (Page 26)

**8. The Task Force recommends that:**

- The IPSASB consider the applicability for financial reporting under the Cash Basis IPSAS of any requirements or encouragements emerging from projects dealing with narrative reporting and reporting service performance during the development of those projects. (Page 26)

**9. The Task Force recommends that:**

- Subject to amendments that arise as a consequence of adoption of other of these Recommendations, the operation of the requirements of Section 1.9 of Part 1 of the Cash Basis IPSAS “Presentation of Budget Information in Financial Statements” be reviewed at the same time as the review of IPSAS 24 “Presentation of Budget Information in Financial Statements”. (Page 27)

**10. The Task Force recommends that:**

- Additional detailed required or encouraged disclosures about financial instruments not be added to the Cash Basis IPSAS. (Page 28)

**11. The Task Force recommends that:**

- Part 2 of the Cash Basis IPSAS be deleted. Explanation in Part 2 which directly supports the application of Part 1 of the Cash Basis IPSAS should be relocated to Part I of the Cash Basis IPSAS and retained.

- The IPSASB consider developing and making available on its website a checklist of the disclosures required by the Cash Basis IPSAS.
- Illustrative examples of encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in their cash (or modified cash) basis GPFs be made available through other mechanisms, including by their inclusion in Study 14. (Page 29)

**12. The Task Force recommends that:**

- The IPSASB continues to explore with IFAC Boards and Committees as appropriate, mechanisms to support education and training needs of developing economies, particularly as they relate to the design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS and the needs of other key stakeholders.
- A supply of hard copies of English, French and Spanish translations of the revised Cash Basis IPSAS be printed and made available for distribution in developing economies. (Page 31)

## INTRODUCTION

### *Background – development of the Cash basis IPSAS*

When first initiated, the IPSAS development program encompassed the development of standards for financial reporting under the modified-cash and modified-accrual bases of accounting, as well as under the cash and accrual bases. However, most respondents to early exposure drafts of the proposed IPSASs and an Invitation to Comment “The Development of International Public Sector Accounting Standards – Which Bases of Accounting” (issued in 1999) argued it was not appropriate or desirable to develop standards for the modified-cash and modified-accrual bases. They were of the view that while use of a modified-cash or modified-accrual basis for financial reporting reflected a desire to be more accountable and transparent than was possible under a “pure” cash basis, the modifications were not necessarily underpinned by any general principles but responded to the circumstances and capacities of each jurisdiction – they reflected the practical realities of what was achievable at a particular time in a particular jurisdiction. Therefore, the nature of the modifications in place could well differ from jurisdiction to jurisdiction, and attempts to standardize modifications across all jurisdictions could act as a disincentive to ongoing developments in financial reporting.

As a consequence, the standards development program was refocused to develop IPSASs on only the cash and accrual bases.

The Cash Basis IPSAS “Financial Reporting under the Cash Basis of Accounting” (the Cash Basis IPSAS) was first issued in January 2003, with an initial application date of 1 January 2004. It is a comprehensive IPSAS for financial reporting on a “pure” (rather than a modified) cash basis. It includes mandatory requirements (identified in Part 1 of the IPSAS) and encouraged additional disclosures (identified in Part 2 of the IPSAS).

Since first issued, the Cash Basis IPSAS has been updated with additional requirements and encouragements dealing with the presentation of budget information in financial statements (2006) and the disclosure of information about external assistance (2007).

### *Objectives of the review and role of the Task Force*

The International Public Sector Accounting Standards Board (IPSASB) approved the Project Brief for this review of the Cash Basis IPSAS in November 2008.

The Project Brief specifies that the primary objective of the project is to identify any major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS and determine whether it should be modified in light of these difficulties, or if further explanation or guidance should be provided. The review is also to:

- consider whether additional reporting requirements should be added to Part 1 of the Cash Basis IPSAS; and
- seek input on whether any of the encouraged additional disclosures in Part 2 of the Cash Basis IPSAS should be included as mandatory requirements in Part 1.

In December 2008, the IPSASB appointed a Task Force to lead the initial data collection and analysis phase of the review and to make recommendations on any modifications that should be made to the Cash Basis IPSAS or additional guidance that should be provided to support its application. The IPSASB also requested the Task Force to make recommendations on whether additional disclosures about financial instruments should be required or encouraged by the Cash Basis IPSAS, and the nature of any such disclosures.

The IPSASB will consider the Task Force recommendations and, if accepted, include any recommended amendments in due process documents proposing revisions to the Cash Basis IPSAS.

The Task Force Members are identified at Appendix E and the Project Brief is included at Appendix F.

## **TASK FORCE ACTIVITIES AND PROCESS**

As specified in the Project Brief, the Task Force has operated primarily on an electronic basis. It met once in early 2009 to agree operating processes and responsibilities, and again in early 2010 to agree recommendations to be included in its final Report to the IPSASB.

The Task Force reviewed IPSASB and IFAC “in-house” resources, relevant reports of international organizations, a number of research articles and websites of the Ministry of Finance in a number of developing economies with the objective of identifying jurisdictions that have adopted, or have considered adopting, the Cash Basis IPSAS and, therefore, could provide input on implementation issues.

A potential population base of some 60 jurisdictions was identified from these sources (for more details see Task Force progress report to the IPSASB meeting February 2009 – Agenda Item 6). However, the Task Force was concerned that some of the “in-house” reports, articles and surveys included data that was, or may be, out of date. Consequently, the Task Force determined that it would not limit its data gathering activities to only those 60 jurisdictions but would adopt a broader two-stage process for data collection and identification of issues as follows:

- Stage 1 – the issue of a project questionnaire seeking input on broad implementation issues from developing economies which have adopted or are intending to adopt the Cash Basis IPSAS, and from PFM experts, users and others with experience of the Cash Basis IPSAS; and
- Stage 2 – “follow-up” discussion with those that responded to the questionnaire and other interested parties on a one-to-one basis, or in regional round-table forums or conference.

### ***Phase 1 – distribution of the questionnaire***

The project questionnaire was issued in April 2009, with a request for responses by 15 July 2009. However, the Task Force continued to accept responses during August and September 2009.

The project questionnaire and supporting explanatory material was prepared in English and translated into French, Spanish and Russian. It was distributed widely by Task Force and

IPSASB members and staff and their wider contact networks to members of the financial reporting community and others in developing economies around the world. The IFAC Developing Nations Committee (IFAC – DNC) and many others, including many international organizations, also supported distribution of the project questionnaire. Recipients of the questionnaire included users of government financial statements, accountants-general/ministries of finance or similar, auditors-general or similar, international development and aid organizations, accounting bodies and individual PFM experts.

A copy of the project questionnaire (English version) is attached at Appendix C. Appendix D outlines the sources reviewed by the Task Force to build its data base, and the activities undertaken by Task Force and IPSASB members and others to ensure a wide distribution of the project questionnaire to relevant parties.

Senior members of international organizations operating in developing economies advised that, to encourage a wide range of interested parties to provide input to the review, individual responses should remain confidential. Consequently, explanatory material accompanying the project questionnaire noted that while the Report to the IPSASB may include summaries of the major issues identified on a regional basis, the identity and individual jurisdictions of those responding to the questionnaire will not be made public without prior consent. Task Force members and staff also made this point in presentations made in support of the project. Task Force members and staff have discussed and clarified observations made with some respondents and confirmed that respondents are comfortable with their inclusion in the list of respondents (Attachment A). However, the Task Force has not sought permission to make public the individual responses. Accordingly, this Report provides only an overview of responses by region.

### *Phase 2– follow-up discussions*

The Task Force identified a number of matters arising from responses to the project questionnaire that were to be discussed in interviews, seminars and round-table forums during the second phase of the project. These included additional input on the modifications to the Cash Basis IPSAS reflected in current practices in particular jurisdictions and regions, and the reasons therefore.

The Task Force explored opportunities for round-table or similar discussions in a number of regions with those that had supported distribution of the project questionnaire and with some respondents. However, opportunities for round-table and similar group discussions were limited during the time frame for the review – they comprised:

- a round-table discussion in Sao Paulo in September 2009 in conjunction with the CReCER conference. While the round-table provided an useful forum to engage with some 20 local

area constituents, issues and concerns with the Cash Basis IPSAS additional to those already identified in responses to the project questionnaire were not identified<sup>1</sup>; and

- discussion of the Cash Basis IPSAS at a number of sessions during a major Pan-African conference held in Nairobi in November 2009<sup>2</sup>. While there was extensive discussion of the Cash Basis IPSAS, issues additional to those identified in responses to questionnaire were not raised.

To gain additional input, Task Force members and staff followed-up with individual government officials and/or PFM experts involved in implementation of the Cash Basis IPSAS or modified cash basis systems (in person or by electronic means) in a number of jurisdictions including: Afghanistan, Indonesia, Iraq, Lao, Kosovo, Kirgizstan, Nigeria, Palestine, South Africa, Sierra Leone, Tajikistan, Uganda and Vietnam. Task Force members also made use of their contacts at Ministries of Finance and other organizations to gain additional perspectives on matters raised in the questionnaire and other issues relevant to adoption of the Cash Basis IPSAS.

The Task Force is of the view that substantial issues in the implementation of the Cash Basis IPSAS additional to those identified in responses to the project questionnaire were not identified in the follow-up discussions undertaken as part of this review. However, Task Force members noted that in follow-up discussions, a number of jurisdictions sought clarity and additional guidance on what should, or may, be encompassed in modified cash and modified accrual bases of financial reporting.

### ***Progress reports***

The Task Force provided detailed progress reports to the IPSASB at meetings in February, May and December 2009.

## **RESPONSES TO THE PROJECT QUESTIONNAIRE**

A total of 46 responses to the questionnaire were received. Respondents included accountants-general, auditors-general, accounting bodies and others in 34 countries. Responses were also received from an auditor-general of a state government, one regional and one international representative body and four international public finance management experts. Of these, 11 responses had no substantial comment to make on specific issues raised in the questionnaire, largely because they had adopted, or were focused on adoption of, the accrual basis (6 responses) or had adopted a modified cash basis and not considered the Cash Basis IPSAS (3 responses).

Figure 1 provides an overview of responses. Appendix A identifies the organizations and individuals that have responded by type, geographic location and language.

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<sup>1</sup> IPSASB members Mike Hathorn and David Bean and Task Force Members Simon Bradbury and Ronaldo Rotter participated.

<sup>2</sup> IPSASB members Erna Swart (the Task Force Chair), Andreas Bergman (Task Force member), Ron Salole, Thomas Müller-Marqués Berger and Anne Owuor participated in the conference.

**Figure 1 – Responses to the Project Questionnaire**

| Region                                | Accountant<br>General, Std Setter | Auditor<br>General | Accounting<br>Body | Individual<br>PFM expert | Total       |
|---------------------------------------|-----------------------------------|--------------------|--------------------|--------------------------|-------------|
| <b>Africa</b>                         | 10*                               | 8                  | 1                  | 3                        | <b>22**</b> |
| <b>South/S–East Asia</b>              | 4                                 | 1                  | 3                  |                          | <b>8</b>    |
| <b>Europe/Central Asia</b>            | 4                                 |                    | 2                  |                          | <b>6</b>    |
| <b>Latin America</b>                  | 1                                 |                    | 2                  |                          | <b>3</b>    |
| <b>North Africa &amp; Middle East</b> |                                   | 2                  |                    |                          | <b>2</b>    |
| <b>International</b>                  |                                   |                    | 1                  | 4                        | <b>5</b>    |
| <b>Total</b>                          | <b>19</b>                         | <b>11</b>          | <b>9</b>           | <b>7</b>                 | <b>46</b>   |

\*Includes a combined response from the Accountant General and Auditor General in one jurisdiction and from the Accountant General, Auditor General and national standard setter in another jurisdiction.

\*\*More than one response was received in respect of current practice in 4 jurisdictions

As identified in Figure 1, there was a very strong response from ministries of finance/accountants-general, auditors-general and representative bodies in Africa where a cash or modified cash basis of accounting is widely adopted. There was also a fairly good response from developing economies in South/South East Asia and Europe/Central Asia, where language differences have often proved a major obstacle to achieving good response rates to IPSASB-EDs and surveys in the past.

The Task Force is disappointed with the number of responses from Latin America, North Africa and the Middle East where it is anticipated that a cash or modified cash basis is widely adopted. This is particularly so given the substantial efforts of Task Force and IPSASB members and their colleagues at the InterAmerican Development Bank (IADB), the World Bank, the IMF and the IFAC – DNC to ensure that the project questionnaire was widely distributed and promoted to relevant bodies in their region.

Some light was shed on the poor response from Latin America at the round-table in Sao Paulo where participants noted that financial reporting by most governments in Latin America had moved past the “pure” cash basis to a modified cash basis – consequently, strengthening the Cash Basis IPSAS would provide little benefit, and was of little interest, to most countries the region.

Appendix D identifies the distribution activities undertaken by the Task Force and others.

### ***Adoption of the Cash Basis IPSAS***

Responses to the project questionnaire confirm that the Cash Basis IPSAS has not been widely adopted – the Cash Basis IPSAS was identified as being adopted at national level in 5 of the 34 countries for which responses were received (Africa–2, South East Asia–1, Europe and Central Asia–1), with progress towards full adoption well underway in another jurisdiction<sup>3</sup>. However, in one of these jurisdictions, the Auditor-General and Accountant-General have different views about whether the Cash Basis IPSAS has been fully adopted – at issue being whether full

<sup>3</sup> The Task Force was also advised by one jurisdiction that it was currently implementing the Cash Basis IPSAS at the national level but as yet was not sufficiently progressed to submit an useful response.

consolidation of all controlled entities, including government business entities (GBEs), has occurred. There was also conflicting views about full adoption in another jurisdiction.

The four individual international PFM experts who responded to the questionnaire did not identify any jurisdictions as having fully adopted the Cash Basis IPSAS.

Respondents also identified that a modified form of cash basis accounting had been adopted in 23 jurisdictions as follows: Africa – 13, South and South East Asia –5, Europe and Central Asia – 2, North Africa and the Middle East – 2 and Latin America – 1. The most frequently identified modifications to the Cash Basis IPSAS are the recognition of some accruals in the primary financial statements, including cash flows that occur within a specified period (often 60-90 days) following the end of the reporting period, and the preparation of financial reports which do not consolidate all controlled entities.

Figure 2 below provides an overview of adoption of the Cash Basis IPSAS and a modified cash basis of accounting as identified by respondents to question 1 of the project questionnaire.

**Figure 2 – Form of Cash Basis adopted**

| Region                                | Basis of Accounting adopted    |                                |                                       | Total     |
|---------------------------------------|--------------------------------|--------------------------------|---------------------------------------|-----------|
|                                       | Cash Basis IPSAS fully adopted | Modified Cash Basis adopted*** | Accrual basis or basis not identified |           |
| <b>Africa</b>                         | 3*                             | 15*                            | 4                                     | <b>22</b> |
| <b>South/East Asia</b>                | 1                              | 5                              | 2                                     | <b>8</b>  |
| <b>Europe/Central Asia</b>            | 2**                            | 2                              | 2                                     | <b>6</b>  |
| <b>Latin America</b>                  |                                | 1                              | 2                                     | <b>3</b>  |
| <b>North Africa &amp; Middle East</b> | –                              | 2                              | –                                     | <b>2</b>  |
| <b>International</b>                  | 1                              | 1****                          | 3                                     | <b>5</b>  |
| <b>Total</b>                          | <b>7</b>                       | <b>26</b>                      | <b>13</b>                             | <b>46</b> |

- \* includes two responses from one jurisdiction (cash basis) and two jurisdictions (modified cash).
- \*\* includes one response which signals an intention and significant progress on full adoption.
- \*\*\* includes some responses which note an intention to adopt the Cash Basis IPSAS in the future.
- \*\*\*\* notes experience with modified cash basis, but does not identify the jurisdiction(s).

*Other recent surveys*

During 2009, the International Organization of Supreme Audit Institutions (INTOSAI) Subcommittee on Accounting and Reporting undertook a survey of INTOSAI’s 189 members to determine the Financial Accounting and Reporting Standards adopted in their jurisdictions. (The IPSASB was provided with the survey findings at its meeting in September 2009. The survey can also be accessed from the INTOSAI website at [http://psc.rigsrevisionen.dk/media\(1188,1033\)/SurveyOnAccounting.pdf](http://psc.rigsrevisionen.dk/media(1188,1033)/SurveyOnAccounting.pdf) .)

The regional classification of countries adopted by INTOSAI is not the same as that adopted by the Task Force, and the INTOSAI survey was not limited to only developing economies. However, responses received to the Task Force project questionnaire present a substantially different picture of adoption of the Cash Basis IPSAS from those reported by INTOSAI

members. For example the INTOSAI survey identifies that a total of 26 countries currently adopt the Cash Basis IPSAS as follows: Africa – 9, Asia –5, Europe – 5, Middle East – 3, Latin America and Caribbean – 4 and Pacific and South Pacific – 4 (note four of these 26 countries appear in more than one region). It also identifies that around 15 additional countries plan to adopt the Cash Basis IPSAS in the future: Africa – 5, Asia –5, Europe – 3 Middle East – 1 and Latin America and Caribbean – 2, Pacific and South Pacific – 1 (note two of these 15 countries appear in more than one region).

A recent review of publicly available literature, including reports of international organizations such as the World Bank and the Asian Development Bank, dealing with accounting bases adopted in 107 low and middle income countries provides further input on adoption of the Cash Basis IPSAS (P. Butzerin, May 2009, Zurich University of Applied Science). That review concluded that while only 5 countries had adopted the Cash Basis IPSAS, 52 countries were considering its adoption (SE Asia and the Pacific – 15; Europe and Central Asia – 12; Latin America and the Caribbean – 5; Middle East and Africa – 20). In 13 cases, adoption of the Cash Basis IPSAS was intended as a precursor to the adoption of the accrual IPSASs.

These results indicate that there is still an appetite for the Cash Basis IPSAS amongst many IPSASB constituents. However, the author of the review notes that in many cases the literature reviewed refers to the intention to adopt IPSASs without distinguishing between the accrual IPSASs or the Cash Basis IPSAS, and it has been assumed that all such references are to adoption of the Cash Basis IPSAS. Whether this will be true in all cases is questionable.

### *Issues identified by respondents*

Respondents to the project questionnaire identified a number of specific technical issues that could usefully be addressed in any review of the Cash Basis IPSAS, and made proposals for modifications to the required or encouraged disclosures. The need for additional guidance and mechanisms to enhance the accessibility of the Cash Basis IPSAS were also noted. In many cases, these matters were raised by only one or two respondents – however, a fairly clear picture emerges of the matters that are of major concern to most respondents, including the areas of the Cash Basis IPSAS that are perceived as the major obstacles to its adoption.

An overview of the major themes and issues identified by respondents to each of the questions included in the project questionnaire is presented below. Appendix B provides a more detailed summary of responses to each of the questions in the project questionnaire.

### *Question 1: Major implementation issues and modifications to the Cash Basis IPSAS*

The most frequently identified obstacles to adoption and ongoing application of the Cash Basis IPSAS (and/or most frequently identified modifications that have been made to it) relate to:

- application of a “pure” cash basis (13 respondents) – there was considerable support for keeping the books open for some time after period end and, in some cases, to recognizing receivables, payables and some other assets and liabilities. (However, as is noted later in this Report, it is not clear that the same modifications to the pure cash basis are adopted in each jurisdiction); and

- the requirement for consolidation of all controlled entities (13 respondents) – full consolidation was not widely supported or adopted, particularly in respect of consolidation of GBEs. (Reasons for this view are noted below in responses to Question 3.)

The following were also identified as additional significant obstacles to adoption of the Cash Basis IPSAS in some jurisdictions:

- differences between the Cash Basis IPSAS and existing legislation and practice (7 respondents); and
- the need for additional training and support (6 respondents).

A number of respondents identified specific requirements of the Cash Basis IPSAS that gave rise to implementation issues in their jurisdiction. For the most part these were identified by only a single respondent. However, satisfying the requirements for comparisons with budget (5 respondents), and access to data to satisfy requirements relating to external assistance (3 respondents) and third party settlements (2 respondents) and were more frequently identified as obstacles to achieving compliance with the Cash Basis IPSAS. The concerns and modifications identified in response to question 1 were reinforced and built on in responses to questions 2, 3, 4 and 5 as outlined below.

See Appendix B Figures 1 and 2 for a more detailed summary of responses to question 1.

#### *Question 2: Improvements and/or amendments to the Cash Basis IPSAS*

In response to this question, the following were identified most frequently as the amendments that should be made to assist in the adoption and/or ongoing application of the Cash Basis IPSAS:

- Accruals – allow for recognition of some accruals (9 respondents);
- Consolidation – consolidation should not be mandatory, more time should be allowed for its adoption, and/or additional guidance provided on its adoption (8 responses);
- Presentation of budget information – align IPSAS with budget structure and/or enhance budget/actual comparisons (6 responses);
- Structure/focus – the Cash Basis IPSAS is too large and complex (4 respondents);
- Third party settlements – more guidance should be provided (4 respondents);
- Transition to the accrual basis – additional guidance/support on transition to accrual and adoption of the encouraged disclosures (3 respondents); and
- Timing of completion – 6 months is too demanding/not justified (3 respondents).

See Appendix B Figure 5 for a more detailed summary of responses to Question 2.

#### *Question 3: Consolidation practices and policies*

Nine (9) respondents from eight (8) jurisdictions (Africa – 6, Latin America – 2) reported that full consolidation occurred for at least one level of government (national, state or local level) in their jurisdiction. Two other respondents (Africa – 1 and South Asia – 1) noted that full consolidation does not occur yet, but existing policy/intention is to fully consolidate in the future.

The reasons for non-consolidation cited most frequently were as follows (in some cases, two or more of these reasons were identified by the respondent as applying in their jurisdiction):

- Contrary to government policy (18 responses); and
- Practical difficulties including:
  - different accounting policies and/or reporting dates (11 responses); and
  - identifying controlled entities and gaining access to relevant data (10 responses).

Two respondents also expressed a concern that it was not appropriate to consolidate all controlled GBE's and local and state governments with national governments.

See Appendix B Figure 4 for a more detailed summary of responses to question 3.

*Questions 4 and 5: The statement of cash receipts and payments and required and encouraged disclosures*

There was strong support for the requirements relating to the statement of cash receipts and payments, and the demarcation between required and encouraged disclosures as identified in the Cash Basis IPSAS – for example:

- 28 responses expressed the view that requirements for the preparation of the Statement of Cash Receipts and Payments and related note disclosures were appropriate for financial reporting under the cash basis – 3 responses identified that they were not appropriate and the remainder did not express a view; and
- 21 responses expressed the view that the disclosures classified as required and those classified as encouraged were appropriate for financial reporting under the cash basis – 2 responses identified that they were not appropriate and the remainder did not express a view.

However, many respondents also registered or reinforced their concerns about the prohibition on recognition of certain accruals in the financial statements and the requirement for full consolidation. The most frequent proposals for amendment to the requirements of the Cash Basis IPSAS were to allow for presentation of certain accruals in the financial statements, and provision for additional financial statements to accommodate such presentations (noted in 10 responses to question 4 and in 11 responses to Question 5).

Amendments to simplify, clarify and/or enhance requirements for comparison of budget and actual amounts (9 responses) and inclusion of requirements for disclosure of additional information about external assistance (5 responses) and service outcomes (3 responses) were also frequently identified. For the most part, responses did not include details of the nature of the

amendments favored or additional disclosures required. Respondents also advocated that the Cash Basis IPSAS include an encouragement to disclose information about the general government sector as per IPSAS 22 (4 responses).

See Appendix B Figures 6 and 7 for a more detailed summary of responses to Question 4 and 5.

### *Interpreting the responses*

As is apparent, there is significant overlap in responses to the questions posed by the Task Force, with respondents often (but not always) identifying the same issues/concerns in response to different questions. In addition, more than one response was received from some jurisdictions. Consequently, the raw number of respondents identified as holding a particular view on an issue is not significant of itself.

However, similar issues and concerns are identified in responses to many of the questions posed in the project questionnaire. The Task Force is of the view that the frequency of identification of an issue, concern or proposal for modification to the Cash Basis IPSAS provides a clear message about the major concerns that ministries of finance, accountants – general and auditors-general (or similar) in developing economies, and PFM experts working with those economies, have with the Cash Basis IPSAS. The follow-up discussions, whether on an individual basis or in round-table discussions or conference forums, tended to confirm that responses to the project questionnaire had captured the major issues in each region.

## **TASK FORCE RECOMMENDATIONS**

The issues identified by respondents to the project questionnaire and in follow-up discussions and ongoing consultation can usefully be grouped under the broad headings of:

- Retain the Cash Basis IPSAS or develop an IPSAS on the modified cash basis;
- Consolidation;
- Technical and Disclosure Issues;
- Structure; and
- Capacity and Capability Issues.

Task Force recommendations are grouped under these broad heads.

## **RETAIN THE CASH BASIS IPSAS OR DEVELOP AN IPSAS ON THE MODIFIED CASH BASIS**

The Task Force was mandated to consider issues related to implementation of the Cash Basis IPSAS, and to make recommendations about any modifications to the IPSAS or additional guidance in light of those issues. Many respondents to this review proposed that the IPSAS be amended to reflect a modified cash basis of accounting by allowing for the recognition of some accruals – this was the most frequently proposed amendment to the IPSAS. This is not strictly an issue relating to implementation of the Cash Basis IPSAS. However, the Task Force believes that

it cannot ignore the matter and the Report should include its views on whether an IPSAS dealing with financial reporting under a modified cash basis should be issued to replace, or as an addition to, the Cash Basis IPSAS. It is a fundamental issue and will condition the Task Force's response to other matters identified by those that provided input to this review.

The Cash Basis IPSAS identifies how general purpose financial statements should be presented under the cash basis of accounting, and the information to be included in those statements. The "Objective" section explains that disclosures about cash receipts, cash payments and cash balances are necessary for accountability purposes and provide input useful for decision making. It also explains that compliance with the Cash Basis IPSAS will enhance comparability and consistency in financial reporting under the cash basis. Compliance with the Cash Basis IPSAS is also intended to provide a sound base for jurisdictions intending to transition to the accrual basis of accounting over the longer term.

While responses to the project questionnaire indicate that few jurisdictions fully adopt the Cash Basis IPSAS, some other recent surveys provide different results. In addition:

- a number of developing economies (particularly in South and East Asia and Africa) report an intention to adopt the Cash Basis IPSAS;
- the World Bank and other international organizations actively promote and support the adoption of IPSASs, including the Cash Basis IPSAS; and
- other jurisdictions are influenced by the requirements of the Cash Basis IPSAS as they develop their domestic reporting requirements.

The Task Force acknowledges that many jurisdictions have moved beyond the pure cash basis to report on a modified cash (or modified accrual) basis, and sees merit in that movement. It also acknowledges that there is merit in the view that the IPSAS could usefully be rebadged as guidance which provides a reference point for a country in re-designing or improving its government accounting system, rather than as a set of requirements which are to be fully complied with in all circumstances. This will allow some flexibility for countries to adopt the substance of the IPSAS and also respond to the legislative requirements which define the government accounting system in each jurisdiction. However, on balance, the Task Force is of the view that while the Cash Basis IPSAS is in need of some "refreshing" and restructuring to make it more user friendly, it is performing an important role by providing an authoritative yardstick for comprehensive and transparent financial reporting when a cash basis of accounting is adopted. Consequently, it should not be decommissioned as an IPSAS. Its retention as an IPSAS, will also keep faith with those jurisdictions which have adopted it, or are intending to do so, and will provide a basis upon which an audit opinion may be expressed.

However, the Task Force is of the view that input to this review signals that the role of the Cash Basis IPSAS and the IPSASB's expectations regarding its adoption could usefully be clarified. This matter is considered further below.

### ***The role of the Cash Basis IPSAS***

The Task Force is of the view that underpinning a number of responses (and explicitly identified in some) is uncertainty about the role of the Cash Basis IPSAS and the IPSASB's expectation about compliance with it. For example, there appears to be some uncertainty about whether the IPSASB encourages governments and other public sector entities which are not currently reporting on the accrual basis:

- to transition to the accrual basis – with the tacit acknowledgement that in so doing entities will move beyond the requirements of the Cash Basis IPSAS to modified cash and modified accrual bases? or
- to comply with the Cash Basis IPSAS, rather than adopt a modified cash or modified accrual basis?

The Introduction to the Cash Basis IPSAS explains:

*“IPSASs are being prepared for application by entities adopting the accrual basis of accounting and for application by entities adopting the cash basis of accounting.... The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting.”*

The Task Force is of the view that the IPSASB's intent is clearly reflected in this Introduction, but the message may have been lost or diminished with the passage of time since initial issue of the Cash Basis IPSAS. Accordingly, the Task Force recommends that the IPSASB reconfirm and fully explain its view on the role of the Cash Basis IPSAS. Such confirmation could usefully acknowledge that the IPSASB is aware that governments are moving past the pure cash basis of financial reporting and explain that:

- while compliance with the requirements of the Cash Basis IPSAS will enhance the accountability and usefulness of GPFs prepared under the cash basis of financial reporting, the IPSASB does not wish to constrain development along the financial reporting spectrum to the accrual basis; and
- the Cash Basis IPSAS is an important component of a transitional “package” that includes Study 14 “Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities” and other IPSASB publications that outline the experience of individual jurisdictions as they transition to the accrual basis of financial reporting.

**1. The Task Force recommends that:**

- The Cash Basis IPSAS should be retained, subject to modifications and restructuring as proposed in other recommendations in this Report.
- The role of the Cash Basis IPSAS and Study 14 in supporting the movement along the spectrum from the cash to the accrual basis of financial reporting should be clarified and reinforced.

### *An IPSAS on the modified cash basis*

In some jurisdictions, financial reporting legislation or regulation provides for the government's books to "remain open" for a specified number of days after period end – therefore, the financial statements for the period encompass some post-period cash flows. This is often described as a modified cash basis of financial reporting. In other jurisdictions, reporting on a modified cash basis can mean that certain receivables and payables and some other assets and liabilities are recognized in the financial statements.

While evidence from responses to the project questionnaire was not conclusive, follow-up discussions undertaken by some Task Force members reinforce a view that the period for which the books are left open and the extent and nature of assets and liabilities that are recognized in the financial statements can differ from jurisdiction to jurisdiction. In addition, as financial reporting becomes more robust and jurisdictions include more accrual information in GPFs, the modifications change – for example, the period that the books are left open after period end may shorten and the structure of the financial statements evolve to accommodate more accrual information.

An authoritative definition of the modified cash basis of financial reporting, and the form and content of financial statements that should be presented under such a basis, is not included in the IPSASB literature. Some have advocated that an IPSAS on financial reporting on a modified cash (and modified accrual) basis be developed. The Task Force is not convinced that development of an IPSAS which standardizes practices that are, and are not, to be adopted under the modified cash (or modified accrual) basis of accounting is an appropriate response to the concerns raised by those providing input to this review. The Task Force is mindful of the response to the previous attempt to develop IPSASs for the modified cash and modified accrual bases by the Public Sector Committee (PSC - the forerunner to the IPSASB), and is of the view that conditions similar to those that mitigated against the issue of standards on those bases at that time still remain – that is:

- different modifications may be in place in different jurisdictions – consequently, standardization on particular modifications may not result in substantially greater adoption of the IPSAS; and
- standardization may impede development along the spectrum to the accrual basis.

### *Guidance on the modified cash (or modified accrual) basis*

Task Force members note that there can be significant differences in financial reports that are categorized as being prepared on a modified cash basis from jurisdiction to jurisdiction, and from one period to another. In many cases, the financial reports do not describe the policies and practices adopted with sufficient clarity or consistency to enable users to fully understand key characteristics of the accounting basis adopted, or to enable an auditor to express a meaningful opinion on the accounts. This undermines the usefulness of the financial reports for accountability and decision making purposes by domestic and international users alike.

Broad definitions or explanations of the modified cash or modified accrual basis, and examples of what may be encompassed by them, are often noted in literature dealing with financial reporting in developing economies. However, the descriptions can sometimes differ and often are not sufficiently detailed to usefully direct practice. The Task Force is of the view that there is merit in the establishment of descriptions of the modified cash and modified accrual basis of accounting that are well understood and generally agreed across many jurisdictions. There is also merit in the development of guidance that is widely accepted on what may be encompassed within financial reports prepared under such bases and, critically, the accounting policy and other disclosures that should be made to enable users to better understand the basis on which such reports are prepared and the principles that underpin them. Such guidance would support increased transparency and better selection of accounting policies and practices. While including some flexibility to respond to the circumstances of different jurisdiction, it would also provide an appropriate basis upon which an auditor may express an opinion on the accounts presented.

This is likely to be of benefit to the citizens and governments of many developing nations as they transition towards the accrual basis of accounting. It will also be of benefit to those national and international organizations which rely on domestic financial reporting systems to provide relevant and reliable financial information about the provision and use of aid (and other) funds, and to compile meaningful and comparable finance statistics to support economic analysis.

Such guidance would complement Study 14 which outlines paths that may be adopted in the transition to the accrual basis and could usefully build on IFAC– PSC Study 11 *Governmental Financial Reporting: Accounting Issues and Practices* (issued in 2000), which includes descriptions and examples of financial reports prepared under modified cash and modified accrual bases. The financial reporting community would then have at its command a comprehensive package of literature to support the enhancement of financial reporting in developing (and other) economies. Such a package would include an appropriate mix of authoritative requirements (the Cash Basis IPSAS), explanation of the paths that may be adopted in the transition to the accrual basis, and necessary preconditions for such transition, (Study 14) and guidance on the nature and content of GPFs presented during that transition (guidance on modified cash and modified accrual bases). (Subject to the timing and process of development, such guidance may be included in, or referenced by, future updates of Study 14.)

The Task Force is of the view that the IPSASB and its observer group is ideally placed to initiate and participate in, if not lead, the development of such guidance. The Task Force recognizes that such an initiative would put additional pressure on the already scarce resources of the IPSASB. However, the Task Force is of the view that input to this review has identified a need for additional guidance on these matters. Therefore, it encourages the IPSASB to identify partners to work with it on this project, and in that way leverage its resources.

**2. The Task Force recommends that:**

- An IPSAS dealing with the modified cash or modified accrual basis should not be developed.

- The IPSASB should join with other international and national organizations to develop guidance on what may be encompassed under the modified cash and modified accrual bases of financial reporting. Subject to the timing and process of development, such guidance it may be included in, or referenced by, future updates of Study 14.

## CONSOLIDATION

### *Underlying concepts and principles*

The definition of the economic entity and consolidated financial statements are applied consistently in the accrual IPSASs and the Cash Basis IPSAS. The definitions of cash and cash equivalents are also applied consistently in the Cash Basis IPSAS and the accrual IPSASs.

The Task Force notes that the consequence of this consistency in expression and application of these definitions is that, in principle:

- the entities that are encompassed within the government economic entity (sometimes referred to as the whole-of government reporting entity) will not differ dependant on whether the GPFs of that reporting entity are prepared under a cash, accrual or modified basis of accounting;
- the cash receipts, payments and balances reported in the financial statements of a government will not differ dependent on whether those statements are prepared under a cash, modified cash, modified accrual or accrual basis; and
- governments will report all the cash receipts, cash payments and cash balances they control.

Many respondents to the project questionnaire and participants in follow-up discussions identified significant concerns with the requirement for full consolidation. The provision of relief from the requirement for full consolidation was the second most frequently proposed amendment to the Cash Basis IPSAS. It is seen as the major impediment to adoption of the IPSAS in a number of jurisdictions. In some cases, the concerns go to matters of principle – for example, inclusion of the cash flows and balances of all controlled entities (and in particular GBE's) will obscure information about the cash flows of the “core” government itself. In other cases, to matters of practicality – for example, compatibility with existing legislation, ability to identify controlled entities, differences in the reporting basis adopted by GBE's and other government entities, and capacity (including the technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

The Task Force is of the view that responses to the project questionnaire do not raise conceptual issues about the notion of the reporting entity and usefulness of consolidated financial statements that apply only when the Cash Basis IPSAS is adopted. The concerns identified can (and do) arise when the accrual basis of financial reporting is adopted and, subject to the nature of modifications, when a modified cash or modified accrual basis is adopted. Therefore, the

concerns have more general application across all bases of accounting, and should be considered in that context.

As a consequence of the response to the global financial crises (GFC), governments around the world have increased their financial support, and arguably their control, of many private sector entities, particularly in the banking sector. The Task Force appreciates that this may prompt a re-examination of the criteria that should be adopted for determining the composition of a group reporting entity and/or the circumstances in which consolidated financial statements are to be prepared.

The Task Force is aware that the IPSASB is actively considering the consequences of governments' responses to the GFC in a joint project with the IMF. The Task Force is also aware that the IPSASB is considering the concepts that underpin a reporting entity and group reporting entity as part of the Conceptual Framework project. The Task Force is of the view that changes in the principles to be applied in determining the reporting entity under the Cash Basis IPSAS should not be made in isolation of these considerations. Consequently, the Task Force is of the view that the concepts that underpin the consolidation requirements in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been developed and their implications for the Cash Basis considered.

### ***Practical obstacles to adoption***

Task Force members note that, in many jurisdictions, a number of the practical obstacles identified above are steadily being resolved as skills training and systems development programs are put in place, and appropriate data collection practices and policies are implemented.

In many jurisdictions, legislation establishes statutory reporting requirements that must be complied with by governments and other public sector entities. The potential for conflict with existing legislation or regulation which requires the preparation of financial reports for the general government or budget sector was frequently identified as an obstacle to adoption of the Cash Basis IPSAS – including in jurisdictions where presentation of full consolidated financial reports was not prohibited by such legislation. The inclusion within the Cash Basis IPSAS of a transitional period of, for example, 3 – 5 years within which full consolidation of all controlled entities is to be achieved would provide an opportunity for necessary changes in legislation to be processed and other initiatives directed at overcoming practical obstacles to be further developed. It would also provide time for the IPSASB to consider any relevant implications of its work on the Conceptual Framework and on the joint project with the IMF.

The Task Force is concerned that without such transitional provisions entities will not commit to adoption of the Cash Basis IPSAS, and without adoption of the Cash Basis IPSAS and the potential to report full compliance there is little incentive to move to full consolidated reports – if such requirements are to be retained in IPSASs. The inclusion of such transitional provisions will not necessarily overcome the concerns identified by those who have contributed to this review. However, there appears to be little downside to their inclusion and will enable entities to commit to, and claim compliance with, the Cash Basis IPSAS while mechanisms to overcome these practical issues are put in place.

The Task Force is also of the view that there is merit in the development of guidance, including case studies as appropriate, illustrating the process of consolidation and outlining the planning and preparatory work and judgments that may be necessary to overcome a range of practical issues.

***Presentation of information about the “core” government entity***

A number of respondents advocated that the requirements for budget reporting be simplified and/or enhanced – for the most part without providing details of the nature of that simplification or enhancement, though some noted that the IPSAS and the budget reporting basis should be more closely aligned. Some also advocated that the Cash Basis IPSAS encourage the disclosure of information about the general government sector.

Input to this review indicates that in many jurisdictions, existing legislation requires the preparation of financial reports for the “government” or “core government”- in broad terms, an entity that reflects the government budget sector or general government sector as described in government finance statistics and the accrual IPSASs. The Task Force is of the view that, together with the practical difficulties noted above, loss of information about this “core” government entity underpins the concerns that many respondents have with requirement to prepare a consolidated financial report at the whole of government level.

The accrual IPSASs provide for reporting of financial information about the general government sector in whole of government consolidated financial statements. While such disclosure is not prohibited by the current Cash Basis IPSAS, equivalent guidance to that in the accrual IPSASs is not included in the Cash Basis IPSAS. The Task Force is of the view that Part 1 of the Cash Basis IPSAS could usefully acknowledge the potential for disclosure within a consolidated whole of government report of information about the budget sector or other representation of core government as considered useful. Such an approach also has the benefit of strengthening the links between the Cash Basis IPSAS and the reporting entity notion reflected in government finance statistics.

The Task Force anticipates that, if the IPSASB accepts the recommendation of a transitional period within which full consolidation is to be achieved, many jurisdictions which adopt the IPSAS will initially prepare financial reports which include a statement of cash receipts and payments which reflect this narrower “core” government entity. The inclusion in the Cash Basis IPSAS of guidance on the nature of the general government sector or budget sector, and requirements to disclose the composition of the reporting entity, are likely to be necessary to ensure that users are aware of the scope of the reporting entity and the basis on which such reports are prepared during any transitional period.

***3. The Task Force recommends that:***

- The requirements for consolidation currently reflected in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been further developed and their implications for the Cash Basis IPSAS can be considered.

- The Cash Basis IPSAS should provide guidance on reporting of cash receipts, cash payments and cash balances of the budget sector, or other representation of the core government as adopted in the jurisdiction, as well as the whole of government.
- The Cash Basis IPSAS should include a transitional period of, for example, 3–5 years from its first adoption within which full consolidation is to be achieved.

## TECHNICAL AND DISCLOSURE ISSUES

Many respondents to the project questionnaire explicitly supported both the existing structure of the financial statements and the demarcation between required and encouraged disclosures for financial reporting under the cash basis of accounting. (See Appendix B figures 5, 6, 7.)

The specific technical enhancements and amendments proposed most frequently by respondents and not addressed elsewhere in this Report are:

- a revision to commentary to extend beyond six (6) months the time after period end that financial statements should be expected to be available;
- inclusion of additional guidance on third party payments;
- inclusion of additional required disclosures about external assistance and service outcomes; and
- enhancements to the requirements for reporting of budget and actual amounts.

The Task Force recommendations on amendments that should be made to the Cash Basis IPSAS, or actions the IPSASB should take, as a consequence of input received on these matters are noted below.

Some respondents also identified the need for the IPSAS to be reviewed and, as appropriate updated for developments in financial reporting since its initial issue – such a review would include revisiting and “refreshing” requirements and the encouraged disclosures for changes and developments in the equivalent accrual IPSASs.

The Cash Basis IPSAS was approved in late 2002 and first issued in early 2003. This is its first review. The Task Force is of the view that, as part of the IPSASB’s ongoing maintenance of IPSASs, Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs. The timing and frequency of such review would be dictated by such matters as the extent and significance of changes in the related accrual IPSASs, input from IPSASB constituents on the need for any amendments to the Cash Basis IPSAS and the availability of capacity in the IPSASB’s work program.

The Task Force is of the view that operation of Part 2 of the Cash Basis IPSAS raises substantial issues of that go beyond mere housekeeping issues. These issues are considered more fully under the broad head of structural issues below.

### ***4. The Task Force recommends that:***

- Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs.

***Availability of financial statements – timing.***

The Cash Basis IPSAS explains at paragraph 1.4.4:

*“The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity’s operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.”*

This is not an authoritative “black letter” standard but rather an acknowledgement that the usefulness of information erodes if it is not provided in a timely fashion. The Task Force appreciates the practical difficulties that will be experienced by some developing economies in attempting to comply with the six, or three, month issue period. However, the Task Force is of the view that this does not undermine the broad principle reflected in the commentary. It anticipates that this is why the IPSASB included its expectations of a desirable time frame for issue of financial statements as an encouragement, rather than a requirement of this IPSAS.

The Task Force is of the view that paragraph 1.4.4 sets an appropriate target period for issue of the financial statements, while still allowing entities to report compliance with the Cash Basis IPSAS if the 6 month period is not met. Given input provided to this review about the difficulty some jurisdictions face in issuing financial statements within six months of period end, the Task Force is of the view that the guidance in this paragraph should not be amended or re-expressed as a requirement.

***5. The Task Force recommends that:***

- The anticipated period for issue of the financial statements as explained in paragraph 1.4.14 should not be amended.

***Third party payments***

Task Force members are not convinced that the requirements to disclose information about third party settlements are well understood by those responsible for preparation of GPFs in some jurisdictions. There was some input from respondents to the project questionnaire to this effect. Some Task Force members have also had the opportunity to discuss, and confirm, this directly with preparers and PFM experts in some jurisdictions.

The concern appears to be two fold as follows:

- First, the availability of the information necessary to comply on a timely basis. This was a matter that the IPSASB was aware of when finalizing the Cash Basis IPSAS – hence the qualifying condition at paragraph 1.3.24 that:

*“Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.”*

The Task Force is of the view that this relief from the disclosure requirement is an appropriate response to a significant practical issue in many jurisdictions. The Task Force is of the view that any additional guidance/explanation the IPSASB may issue in respect of the Cash Basis IPSAS could usefully highlight/explain that this condition for disclosure responds to practical concerns.

- Secondly, the distinction between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures that are to be made about each. At issue appears to be the relationship between the following paragraphs:
  - Paragraph 1.3.24 requires disclosure of payments made by a third party to settle an obligation of an entity, or to purchase goods and services for its benefit, to be disclosed in a separate column on the face of the statement of cash receipts and payments.
  - Paragraph 2.1.90 encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services, and paragraph 1.10.21 requires that where an entity makes such disclose it should also disclose in the notes the basis on which that value is determined.

The Task Force is of the view that there may well be an overlap between these requirements and recommends that the IPSASB clarify and simplify the relationship between them.

**6. The Task Force recommends that:**

- The IPSASB clarify the relationship between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures to be made about each.

***External assistance – additional required disclosures***

Some respondents noted that the disclosure of additional details of the sources and use of external assistance funds currently encouraged in Part 2 of the Cash Basis IPSAS could usefully be included as required disclosures in Part 1. The Task Force is aware that the inclusion of requirements for such disclosures was raised during the extensive consultation undertaken by the IPSASB following the issue of ED 32 “Financial Reporting under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” (2006). The Task Force

understands that the IPSASB was of the view that such proposals had merit. However, they had not previously been raised with the IPSASB or exposed for comment as part of the IPSASB's due process. Consequently, they were included as encouraged, rather than required, disclosures.

The Task Force is of the view that, given this background, the IPSASB could usefully consider in any due process documents proposing revisions to the Cash Basis IPSAS whether certain of the encouraged disclosures about external assistance should be re-designated as required disclosures. This is particularly so if their inclusion as requirements in the Cash Basis IPSAS will support initiatives to harmonize the financial reporting requirements that are imposed on recipients by donor organizations.

However, the Task Force does not underestimate the complexity or sensitivities involved in processing this recommendation. For example, the encouraged disclosures are extensive and may be viewed as special purpose disclosures responding to the needs of only the donor community. Therefore, while usefully included as encouragements to be adopted as appropriate in particular jurisdictions as circumstances allow, it is not clear that all will readily translate to requirements.

**7. The Task Force recommends that:**

- Certain of the encouraged disclosures about the sources and uses of external assistance funds currently included in Part 2 of the Cash Basis IPSAS be considered for reclassification as required disclosures and included in Part 1 of the IPSAS.

***Service outcomes – additional required disclosures***

The IPSASB is currently addressing the scope of financial reporting as part of its Conceptual Framework project. Its work program also includes projects dealing with narrative reporting and reporting service performance under the accrual basis. Work undertaken as part of these projects may also have relevance for reporting of service outcomes under the cash basis of accounting. The Task Force is of the view that the implications of these projects for the Cash Basis IPSAS should be considered as they are developed, and that the IPSASB should not initiate a separate project to consider the reporting of service outcomes under the Cash Basis IPSAS.

**8. The Task Force recommends that:**

- The IPSASB consider the applicability for financial reporting under the Cash Basis IPSAS of any requirements or encouragements emerging from projects dealing with narrative reporting and reporting service performance during the development of those projects.

### *Budget reporting in financial statements*

As noted above, a number of respondents advocated that the requirements for budget reporting be simplified and/or enhanced without providing details of the nature of that simplification or enhancement.

The requirements relating to budget reporting are a recent addition to the Cash Basis IPSAS. Exposure Draft ED 27 “Presentation of Budget Information in Financial Statements” was issued in late 2005. It dealt with financial reporting under both the cash and accrual bases and was well supported by respondents. Section 1.9 of Part 1, “Presentation of Budget Information in Financial Statements” was added to the IPSAS in 2006.

A review of the operations of the IPSASB undertaken during 2008 and 2009 at the request of the World Bank and IFAC<sup>4</sup> (the Wilkinson Report) recommended that the IPSASB keep under review IPSAS 24 “Presentation of Budget Information in Financial Statements” (which applies when the accrual basis of financial reporting is adopted) and commit to “review its effect in practice within a period of years”. The Task Force is of the view that, except for any revisions to the budget reporting section of the Cash Basis IPSAS that are necessary as a consequence of the adoption of other recommendations in this Report, the review of IPSAS 24 should also encompass the operation of the equivalent requirements in the Cash Basis IPSAS.

#### **9. The Task Force recommends that:**

- Subject to amendments that arise as a consequence of adoption of other of these Recommendations, the operation of the requirements of Section 1.9 of Part 1, of the Cash Basis IPSAS “Presentation of Budget Information in Financial Statements” be reviewed at the same time as the review of IPSAS 24 “Presentation of Budget Information in Financial Statements”.

### *Financial instruments*

The Project Brief requires the Task Force to make recommendations to the IPSASB on whether the Cash Basis IPSAS should encourage or require any additional disclosures about financial instruments, and the nature of those disclosures.

The Cash Basis IPSAS currently encourages the note disclosure of assets and liabilities, and refers readers to certain accrual IPSASs for guidance about additional disclosures that may be made (see, for example, paragraphs 2.1.33 – 2.1.35). However, it does not specifically require or encourage the disclosure of financial assets and financial liabilities or refer readers to the accrual IPSASs dealing with financial instruments.

The Task Force has monitored the development of IPSASs based on IFRS 7 “Financial Instruments: Disclosure”; IAS 32 “Financial Instruments: Presentation” and IAS 39 “Financial

<sup>4</sup> “Report on the Operations of The International Public Sector Accounting Standards Board” (April 2009) – see IPSASB meeting September 2009, Agenda item 1.5 The review was undertaken by Mr. H Wilkinson.

Instruments: Recognition and Measurement” (Final IPSASs based on these IFRSs have now been issued). During early 2009, the Task Force considered examples of required or encouraged disclosures that might be added to the Cash Basis IPSAS based on an initial draft of IPSAS ED 39.

The Task Force concluded that it would not recommend the inclusion of additional detailed required or encouraged disclosures about financial instruments in the Cash Basis IPSAS. It is concerned that to do so would present an additional impediment to adoption of the Cash Basis IPSAS – for example, it would significantly increase the size of the Cash Basis IPSAS, compounding existing concerns that it is already too long. The Task Force is also of the view that for many jurisdictions, the disclose of information about liabilities and assets more broadly remains a priority – as such including extensive disclosure requirements about only financial instruments is not justified.

The Task Force acknowledges the benefit of encouraging those jurisdictions transitioning to the accrual basis to steadily build disclosures of assets and liabilities as prescribed in the accrual IPSASs, including financial assets and financial liabilities. However, it is not convinced that adding additional encouraged disclosures to Part 2 of the Cash Basis IPSAS is an appropriate or effective mechanism to achieve that objective. This matter is further developed below under the head of structural issues.

The Task Force determined that during the second phase of the project it would seek the views from interviewees and those that participated in round-table discussions. As noted above, the opportunities for round-table and similar follow-up discussions were more limited than anticipated. In addition, discussions Task Force Members held directly with officers of ministries of finance and PFM experts focused on other issues. Consequently, the Task Force cannot confirm that there is strong constituent support for its view on this matter – however, it does note that respondents to the project questionnaire and those participating in round-table discussions and similar forums did not advocate the addition of requirements or encouragements on financial instruments that parallel those in the IFRSs or in IPSAS 15 “Financial Instruments – Disclosure and Presentation”<sup>5</sup>.

**10. The Task Force recommends that:**

- Additional detailed required or encouraged disclosures about financial instruments not be added to the Cash Basis IPSAS.

**STRUCTURE**

The Cash Basis IPSAS comprises two parts and encompasses requirements, encouraged disclosures and extensive illustrations. This has resulted in a lengthy document – a total of 126

<sup>5</sup> IPSAS 28, “Financial Instruments: Presentation”; IPSAS 29, “Financial Instruments: Recognition and Measurement”; and IPSAS 30, “Financial Instruments: Disclosures” were not issued until January 2010 when the data collection phase of this review was substantially complete.

pages of the Handbook, with the encouraged disclosures in Part 2 comprising 54 pages. The inclusion of additional requirements or guidance will further increase its size.

Some respondents to the project questionnaire expressed concern about the structure of the Cash Basis IPSAS, including that it is too long and may be better reconstituted as a series of standards, and would be more user friendly if it included a checklist of requirements and/or a chart of accounts (see Appendix B – Figures 2, 5, 7). Similar observations were also made to Task Force members and staff in some follow up discussions.

While these concerns may not be seen as a major impediment to the adoption of the Cash Basis IPSAS, the Task Force is of the view that Part 2 adds unnecessarily to the length and complexity of the IPSAS. In addition, it may not be effective in achieving the objective intended. This is largely because the IPSASB has been steadily updating and expanding the accrual IPSASs – consequently, the encouraged disclosures that are intended to reflect the requirements in accrual IPSASs and support the transition to the accrual basis are, in some cases, quite out of date.

Responses to the project questionnaire, and the experience of Task Force members, reflect that many jurisdictions adopt a modified cash (or modified accrual) basis of accounting which merges and recognizes both cash and accrual data in the primary financial statements, rather than maintaining the distinction between the pure cash basis financial statements and the additional accrual disclosures as reflected in Part 2 of the Cash Basis IPSAS. Therefore, to continue to monitor and update the encouraged disclosures will consume considerable IPSASB resources with questionable return.

Consequently, the Task Force encourages the Board to explore different mechanisms to support those wishing to enhance their cash basis GPFRs with disclosures that reflect some aspects of the accrual IPSASs. In this context, the Task Force is of the view that:

- Part 2 of the Cash Basis IPSAS should be deleted. Explanation in Part 2 dealing with such matters as “administered transactions” and “pass-through accounts” which directly support application of the cash basis requirements may well be relocated to Part 1 of the IPSAS;
- the IPSASB consider developing and making available on its website together with the Cash Basis IPSAS, a checklist of the disclosures required by the Cash Basis IPSAS; and
- the illustrative examples of additional encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in the cash (or modified cash) basis GPFRs be made available to interested parties through other mechanisms, including in subsequent updates of Study 14 if appropriate.

The Task Force is of the view that this will increase the accessibility of the Cash Basis IPSAS. It is also a more resource efficient mechanism for ensuring that those contemplating the inclusion of additional accrual type disclosures in cash basis GPFRs are responding to guidance derived from the appropriate accrual IPSASs.

The Task Force also notes that the Wilkinson Report (2009) recommends that steps the IPSASB might take to respond to the needs of developing nations could include issue of a simplified version of the requirements of the accrual IPSASs which:

*“ ...sets out the requirements of IPSASs in a simpler and more logical way, emphasizing the important issues and omitting the detail unlikely to be relevant to public sector entities or indeed governments. This could be similar to an SME document though not actually based on the IASB SME document. ”*

The Task Force is of the view that should the Board activate such a project, its potential to also provide additional guidance on what currently are encouraged disclosures in Part 2 of the Cash Basis IPSAS should be explored.

**11. The Task Force recommends that:**

- Part 2 of the Cash Basis IPSAS be deleted. Explanation in Part 2 which directly supports the application of Part 1 should be relocated to Part I of the Cash Basis IPSAS and retained.
- The IPSASB consider developing and making available on its website a checklist of the disclosures required by the Cash Basis IPSAS.
- Illustrative examples of encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in the cash (or modified cash) basis GPFs be made available through other mechanisms, including by their inclusion in Study 14.

## CAPACITY AND CAPABILITY ISSUES

The relative scarcity of appropriate human and other resources in developing economies and the need for additional training and financial and other support were identified as a significant implementation issue in a number of jurisdictions (see for example, Appendix B – Figure 3) . Wider consultation by the Task Force and the experiences of Task Force members confirms these as major impediments to adoption of the Cash Basis IPSAS (or the accrual IPSASs). The need for additional resources to support the implementation of financial management reforms and enhanced accountability in developing economies has also been well documented in studies undertaken by international organizations and others – with programs for technical and other support often initiated as a response.

The review of the PSC<sup>6</sup> undertaken in 2003/2004 considered the role that the PSC should have in supporting the implementation of the Cash Basis IPSAS. In its report to the IFAC Board (July

<sup>6</sup> The Review Panel was chaired by Sir Andrew Likierman, then Head of the United Kingdom Government Accountancy Service. Views on the Cash Basis IPSAS were only one of the matters considered by the Panel.

2004), the Review Panel recommended that resources “*beyond those necessary to review the operation of the cash based IPSAS and to consider the relevance of disclosures in newly adopted or revised accrual based IPSASs*” should not be allocated to updating or supporting the Cash Basis IPSAS over the medium term. The Panel also noted that assistance in implementation of the Cash Basis IPSAS was a broad issue that IFAC as a whole should consider more widely.

The Task Force agrees that the IPSASB should not be actively involved in capacity building in developing economies or providing “on-the-ground assistance” in implementation of the Cash Basis IPSAS. Such activities are better undertaken by other organizations – the IPSASB is not resourced to undertake such activities and already has a very demanding standards setting program.

The Wilkinson Report (2009) included an assessment of the contribution of developing countries to IPSASB activities. It noted that in addition to the issue and review of the Cash Basis IPSAS, establishing the appropriate leadership and liaison within the IFAC organization to address the education and training needs of developing nations will reinforce IFAC’s and the IPSASB’s response to the needs of developing economies. It also noted that the IPSASB had already initiated dialogue with the IFAC–DNC to this end.

The Task Force supports the initiatives of the IPSASB, the IFAC–DNC and other IFAC Boards and Committees to identify mechanisms to support education and training needs of developing economies. In this context, the Task Force notes that in many jurisdictions access to the internet and capacity to download and print documents is limited. It is of the view that the ability to provide “official” printed copies of the Cash Basis IPSAS (independently of the IPSASB Handbook and in English, French and Spanish as appropriate) to key members of the financial reporting community in developing economies would provide significant support to activities undertaken by IPSASB members and others to provide information about, and promote adoption of, the Cash Basis IPSAS.

The design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS, and common modifications to it, as well as to the needs of the donor community and those compiling government finance statistics has the potential to provide significant economies of scale to many developing economies. The Task Force encourages the IPSASB and other IFAC Boards and Committees as appropriate to support those international and national organizations working to harmonize governmental financial reporting requirements and the data systems that support them.

**12. The Task Force recommends that:**

- The IPSASB continues to explore with IFAC Boards and Committees as appropriate, mechanisms to support education and training needs of developing economies, particularly as they relate to the design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS and the needs of other key stakeholders.
- A supply of hard copies of English, French and Spanish translations of the revised Cash Basis IPSAS be printed and made available for distribution in developing economies.



PO Box 1077, St Michaels, MD 21663, T. 410-745-8570, F. 410-745-8569

March 3, 2015

Ms. Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board (IPSASB)  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Cash Basis Accounting Standard distributed by IPSASB.

Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

Attached is the ICGFM Ad Hoc Committee on International Accounting Standards response to the Cash Basis Accounting Standard.

We appreciate the opportunity to comment and would be pleased to discuss this letter and attachment with you at your convenience. If you have questions concerning this letter, please contact Michael Parry, ICGFM at [Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com).

Sincerely,

ICGFM Accounting Standards Committee  
Michael Parry, Chair  
Anthony Bennett  
Jesse Hughes  
Michael Parry  
Maru Tjihumino  
Andrew Wynne

CC: Jack Maykoski  
President, ICGFM



# ICGFM Ad Hoc Committee on Accounting Standards

## Proposed changes to the Cash Basis Standard

March 3, 2015

### Overview

It is our view that the Cash Basis standard is of great importance for two groups of users. Firstly, for sovereign governments will not implement accrual standards in the foreseeable future. The Cash Basis standard provides an international standard for such governments to publish IPSAS compliant General Purpose Financial Statements (GPFRS).

Secondly, for countries planning to transition to accrual, the Cash Basis standard provides a starting point and also a method of publishing IPSAS cash basis compliant GPFRS until full accrual is implemented.

A number of countries around the world have sought to publish GPFRS that are compliant with the Cash Basis standard. However, so far as it has been possible to determine, no country has been able to achieve full compliance (even though some claim to have done so). To be relevant the Cash Basis standard must be a feasibly achievable standard. The evidence is that at present this is not the case.

At the same time, if the Cash Basis standard is part of the overall IPSAS framework, then there needs to be a linkage between cash and accrual standards. This issue is addressed below.

### 1. Conceptual linkage between cash and accrual standards

The Conceptual Framework as developed by the International Public Sector Accounting Standards Board (IPSASB) does not address the issue of the relationship between the Cash Basis and Accrual Standards. We consider it important that the relationship is made explicit.

**It is our view that the GPFRS as defined in the Cash Basis Standard should be envisaged as a sub-set of the GPFRS as defined in the accrual standards.**

Under the Cash Basis standard the GPFRS contains three statements:

- Cash Flow statement (Statement of Receipts and Payments)
- Budget comparison (where appropriate)
- Notes and accounting policies.

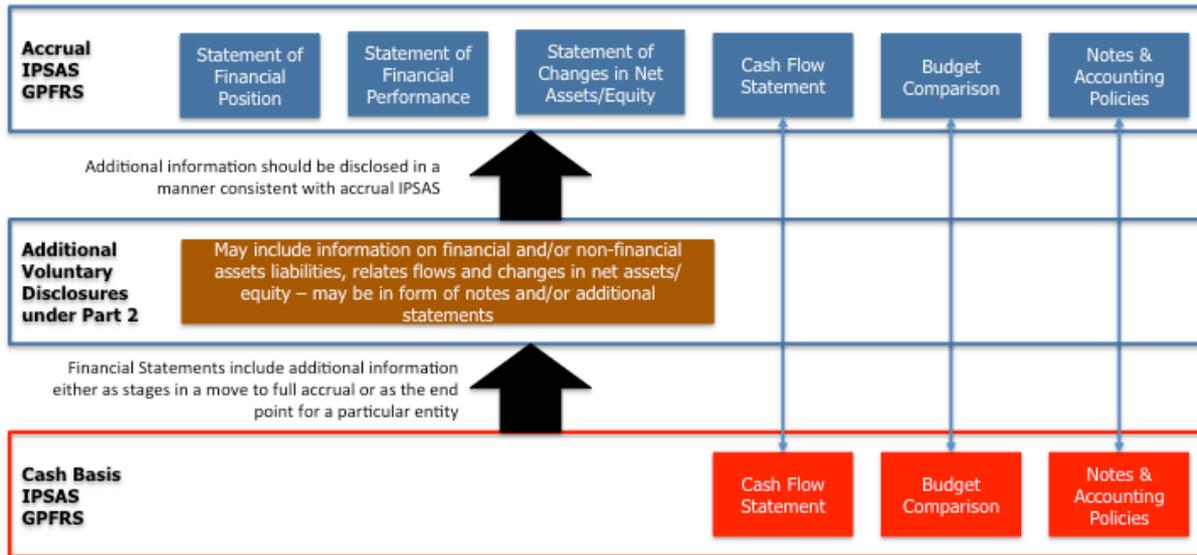
These three statements are just three out of six statements required by IPSAS 1 for accrual financial statements. The additional accrual IPSAS statements are:

- Statement of Financial Position (Balance sheet)

- Statement of Financial Performance (Operating statement)
- Statement of changes in net assets/equity

This relationship of the Cash Basis standard as a sub-set of the accrual IPSAS is summarised in Figure 1 below.

**Figure 1: Relationship between Cash Basis and accrual IPSAS**



Note that this model also illustrates how the Additional Voluntary Disclosures under Part 2 of the Cash Basis standard provide the link between cash and accrual GPFRS.

The model in Figure 1 is important for four reasons:

1. The model defines the conceptual linkage between the IPSAS Cash Basis and accrual GPFRS
2. If the Cash Basis standard is a sub-set of accrual IPSAS then this logically defines the requirements of the Cash Basis standard as being limited to those within accrual IPSAS requirements
3. The model indicates how the Cash Basis standard Part 2 Additional Voluntary Disclosures can be used to incorporate some elements of accrual information whilst remaining compliant with the Cash Basis standard.
4. Hence the model provides a route from cash to accrual GPFRS whilst retaining IPSAS compliance.

Points 2 through 4 above are expanded in the sub-sections below.

## **Point 2: the model of the relationship defines the Cash Basis standard requirements**

Since the Cash Basis standard is a sub-set of the accrual IPSAS then the requirements of the Cash Basis standard must be consistent with, and not exceed, those of the accrual IPSAS. However, at present the Cash Basis standard contains requirements that are not reflected in accrual IPSAS. Such requirements are identified and further discussed below.

The relationship also means that if additional disclosures are made under Part 2 of the Cash Basis standard such disclosures should be consistent with the requirements of any relevant accrual IPSAS. For example, if information is provided on actual and contingent liabilities, then that information and presentation should be consistent with accrual IPSAS 19.

**It is our view that the requirements of the Cash Basis standard should be limited to the requirements within accrual IPSAS. Furthermore, there should be a specific requirement that additional disclosures under Part 2 of the Cash Basis standard should be consistent with any relevant accrual IPSAS in terms recognition, measurement and presentation.**

### **Point 3: the model indicates how Part 2 of the Cash Basis standard can be utilised**

Many national governments publish GPFERS described as “modified cash” or “modified accrual”. The IPSASB has declined to define such basis for the valid reason that the concept is too vague and application of modified cash or modified accrual varies between countries.

However, Part 2 of the Cash Basis standard allows a country to publish IPSAS compliant GPFERS whilst also allowing such additional “modified” accrual or cash information, and without any need to define such terms.

This option already exists under the Cash Basis standard but has never been formally recognised by IPSASB. An entity that publishes GPFERS that comply with Part 1 of the Cash Basis standard may be compliant with that standard. This compliance remains even if the notes contain extensive additional information in accordance with Part 2 of the Cash Basis standard, and even if such additional information in the Notes amounts to modified cash or accrual information.

This feature can be useful for countries in either of two situations:

1. A country that is transiting to accrual (see the next sub-section), or
2. A country that has decided not to move to full accrual but desires to publish more information that the mandatory information under the Cash Basis standard.

**It is our view that the approach to using Part 2 of the Standard to provide some elements of accrual information should be specifically stated and explained in the Standard.**

### **Point 4: the model provides a route from cash to accrual whilst continuing to publish IPSAS compliant GPFERS**

As noted above, a country that is in transition to accrual accounting can continue to present GPFERS compliant with the Cash Basis standard whilst publishing an increasing range of accrual IPSAS information in the Notes.

This facility is especially important for national governments where the move to accrual accounting and GPFERS is being driven from a national level and there is likely to be a long period whilst groups of accrual IPSAS are sequentially adopted and implemented. In such countries the transition period may extend over decades. During the transition it is important that such a country commences and continues to publish IPSAS compliant GPFERS.

The IPSASB Study 14 "Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities" does not address the above problem. IPSAS 33 "First Time Adoption of Accrual Accounting" only deals with the issue once all of the accrual IPSAS have been adopted.

There are two approaches to the problem publishing GPFRS of an extended transition to full accrual:

1. A country progressively adopts national public sector accounting standards. The national standards may be based on IPSAS. Adoption is sequenced over time. Thus at any stage the government or other public sector entities can publish GPFRS that are compliant with adopted national standards. This is the approach adopted, for example, by Tajikistan.
2. An alternative approach is that during the transition the country and sub-national entities continue to publish Cash Basis compliant GPFRS, but with progressively more accrual information being published in the Notes. This is the approach adopted, for example, by Georgia.

**It is our view that the Cash Basis standard should specifically refer to Option 2 above and explain how such an option can be applied.**

## **2. Requirements in the Cash Basis standard that are more onerous than accrual IPSAS requirements**

As indicated above if the Cash Basis standards are a subset of accrual IPSAS, then it follows that the Cash Basis mandatory disclosure requirements should never be more onerous than those in accrual IPSAS. Thus the accrual IPSAS define the parameters for the Cash Basis standard. Yet in two cases the Cash Basis standard requirements are significantly more onerous than those in accrual IPSAS, as indicated below.

### **2.1 Third party payments**

The inclusion of third party payments is unique to the Cash Basis standard, though the term "third party payments" is used in relation to construction contracts in IPSAS 11. There is no general requirement for accrual GPFRS to show third party payments.

As indicated above, in our view the Cash Basis standard should not contain requirements that are more onerous than requirements in accrual IPSAS. Hence we consider that the requirement to provide information on third party payments should be moved to Part 2 of the Standard as an encouraged additional disclosure.

We do consider that disclosure of third party payment information should be encouraged, because the information is needed for fiscal control and resource allocation. The payments for goods and services by third parties are part of the fiscal resources available to government and disclosure should be encouraged. We would also wish to see such disclosure being required under an accrual IPSAS.

In addition, the Cash Basis Standard should provide additional information and examples to guide the identification and presentation of information on third party payments. The Cash

Basis Standard provides no guidance on the most important example of third party payments as described above.

A problem is that it is common practice of development partners to establish separate bank accounts for payments relating to a particular programme of assistance. There is a grey dividing line as to whether such bank accounts are in fact public money of the entity, or are bank accounts not controlled by the entity but used by the development partner for third party payments on behalf of the entity. Factors such as signatories on and control over the use of the bank account need to be taken into account. At present the Standard provides no guidance or examples on how to draw the dividing line.

**We consider that the requirement to publish information on third party payments should be moved to Part 2 of the Standard as an encouraged additional disclosure. At the same time there should be improved guidance and examples of applying the concept of third part payments to national government GPFRS. Where appropriate, this requirement should also be included in the accrual IPSASs.**

## **2.2 Information on external assistance**

There are very specific requirements in Section 10 of Part 1 of the Cash Basis Standard on the disclosure of information about external assistance. Sections 64-93 in Part 2 of the Standard encourages yet more disclosure.

Accrual IPSAS 23 on Non-Exchange transactions refers to external assistance, but there are no specific disclosure requirements. The example in the implementation guidance to IPSAS 23 discloses information on a specific example of external assistance, but this is only under the general requirement to disclose major classes on non-exchange transactions. There is no general accrual IPSAS requirement to disclose information on external assistance.

Furthermore, the requirements for disclosure of information on external assistance are difficult to fulfil. This is one of the areas where Cash Basis GPFRS typically fail to fully comply with the Cash Basis Standard.

**It is our view that the requirements for disclosure of information on external assistance should be moved to Part 2 of the Cash Basis Standard as an encouraged additional disclosure.**

## **3. Issues making the Cash Basis standard difficult for full implementation by national governments**

### **2.1 Consolidation**

The Cash Basis Standard requires the preparation of consolidated statements for all controlled entities. For sovereign governments this will include some or all of:

- Not-for-profit entities, agencies and Funds that are under the control of central government

- Government Business Enterprises (GBEs, referred to as Public Corporations in the IMF Government Financial Statistics Manual (GFSM)) and their subsidiaries
- Sub-national levels of government if these fall within the definition of controlled entities, and in such cases entities, agencies, funds and GBEs controlled by sub-national levels of government.

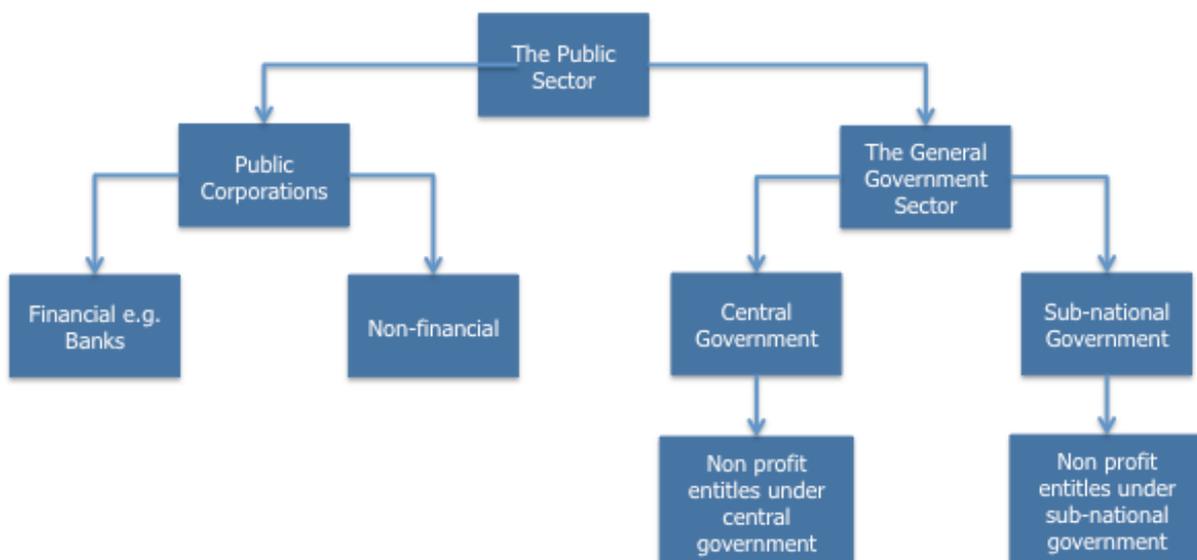
This Cash Basis consolidation requirement is consistent with the accrual IPSAS other than that it is based on IPSAS 6, which has now been replaced by IPSAS 35.

There are a number of reasons why implementing the consolidation requirements of the Cash Basis standard has proved so challenging:

1. It is technically difficult to consolidate entities that report in an accrual basis (as is likely to be the case with GBEs) with government entities that report on a cash basis. Published GPFRS of the GBEs will not provide a detailed analysis of cash flows in a format consistent with the government cash chart of accounts. Additional unpublished analysis of the cash flows may be difficult to obtain and will lack the reliability of audited GPFRS.
2. Countries reporting under the Cash Basis may not have the skills or resources to carry out technically complex consolidations and may doubt the value of allocating limited resources to this task.
3. The consolidation structure under the GFSM is simpler than the IPSAS structure, being based on administrative structures, and may take precedence over IPSAS consolidation in terms of government priorities.

The GFSM consolidation structure is summarised in Figure 2 below.

**Figure 2: GFSM Consolidation Structure**



Under accrual IPSAS 22 it is permitted to provide additional statements consolidating the General Government Sector (GGS) as defined in the GFSM. In fact for most countries

reporting under the Cash Basis a GGS consolidation provides a more feasible option to consolidation based on control.

It is our view that the present Cash Basis standard consolidation requirements are so onerous that it is unlikely that most countries reporting under the Cash Basis standard will ever be able to meet the requirement. Making GGS consolidation an option would be more feasible, but then the Cash Basis Standard would not be consistent with the accrual IPSAS.

**Hence it is our view that the whole of the consolidation requirement should be moved to Part 2 of the Standard as an encouraged disclosure. Furthermore, since Part 2 is more flexible, consolidation could be encouraged on either the control basis (as in IPSAS 35) or on the GGS basis (as in IPSAS 22).**

### **3. Other issues**

#### **3.1 Format of the Receipts and Payments (cash flow) Statement**

Paragraph 2.2.1 of the Cash Basis Standard states "*An entity which intends to migrate to the accrual basis of accounting is 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"*". Presumably in other situations the format used in the examples in the Appendix to the Cash Basis standard is envisaged.

It is our view that the format of the presentation should always be in the IPSAS 2 cash flow statement format for the following reasons:

1. The model in Figure 1 above indicates the need for consistency between accrual IPSAS and Cash Basis Standard presentation as far as feasible
2. The cash flow statement format provides useful information for fiscal management - the traditional receipts and payments format is less useful
3. The cash flow format is largely consistent with GFSM cash flow statement format.

**It is our view that instead of the existing paragraph 2.2.1 the Standard should more simply require presentation of the receipts and payments in a format consistent with IPSAS 2 cash flow statement.**

# ICGFM Ad hoc Committee on Accounting Standards

## Cash Basis Standard - Response to Comments

### Consolidation

We are not aware of any country using the Cash Basis Standard that has been able to present consolidated financial statements for all controlled entities. There are both conceptual and practical problems:

- **Conceptual**

- Although many countries maintain government accounts on a cash basis, in almost all cases GBEs report on an accrual basis. In many cases GBEs have adopted IFRS for financial reporting.
- In such cases the GBE Cash Flow Statements will not show line item cash flows in sufficient detail for consolidation.
- This means additional cash flow analysis must be sought from each GBE to enable consolidation of line item cash flows. However, most accounting systems are not designed to generate line item cash flow information. Hence the information may simply not be available, or require considerable manual analysis for which there is no political will.
- In addition, information will be required on cash transactions with other entities within the consolidation for the purpose of elimination. Because accounts are maintained on an accrual basis for the reasons indicated above this cash information may simply not be available.
- Even if available it will be unaudited information and is likely to take considerable time to generate.

- **Practical**

- By definition, countries using the Cash Flow basis will have limited resources and this adds to the problems of obtaining suitable information
- Typically GBEs report on the same date as the country as a whole - this makes it infeasible to consolidate and to meet what are often legal deadlines for government financial reporting
- In most countries, GBEs have a significant degree of autonomy and will be unwilling to provide the required information for national level consolidation. It is unlikely the political will exists to force GBEs to comply.
- The consolidating process for GBEs is technically complex and unlikely to be feasible in resource constrained countries.

However, consolidating GBEs is only part of the issue relating to consolidation. In many countries, some of the functions of government are conducted by statutory bodies/agencies that are not part of central government. The need to present consolidated information on these core functions of government is very great. The problem with requiring infeasible consolidation of GBEs is that no consolidation of core functions takes place.

We consider consolidation of these core functions of government is both feasible and important.

Therefore we favour a four-stage approach to consolidation (this is also in line with the approach in GFS 2014):

1. Consolidation of all of central government (budget entities) - this will normally (but not always) happen automatically through a unified accounting system. Such consolidation should include all central Government Ministries, Departments and Agencies that do not have a separate legal status. Such consolidation should be feasible because of the high degree of central control and the use of a common accounting base and policies.
2. Consolidation of all central government controlled statutory bodies, funds and agencies that are performing the functions of government (extra budget entities). Such consolidation is very important to enable an overall picture of the activities of government and to enable proper comparison between countries. Usually (though again not always) such entities will also operate on a cash basis using the same accounting policies as central government, making consolidation feasible.
3. Consolidation of sub-national levels of government as in the first two stages above - the General Government Sector. This consolidation is presently not required under the Cash Basis Standard (unless the sub-national entities are controlled by central government), but is in fact important both for fiscal management and for inter-country comparison. Implementing Stage 3 will involve a hierarchy of consolidation starting with consolidation at sub-national levels of government of their controlled entities (as defined in Stages 1 and 2) before such entities can be consolidated nationally.
4. Consolidation of GBEs - a final stage that will probably only take place when accrual standards are implemented.

It is our view that only the first two stages as described above should be mandatory under the Cash Basis Standard. We consider Stage 1 and 2 consolidation is fundamental to understanding expenditure by the national government on its core functions, and hence to transparency and accountability. Focussing on this more limited component of consolidation is feasible. At present there may be a tendency to undertake no consolidation because the consolidation of GBEs is regarded as too difficult.

In summary, we consider that a more limited but feasible consolidation requirement will actually improve outcomes in terms of both information provided and IPSAS compliance.

However, we do not consider either Stage 3 or 4 should be mandatory for the following reasons:

- Stage 3 above is not at present required and we do not wish to add to the complexity of the Standard, and

- Stage 4 above is simply not feasible and, if made mandatory, will result in a continuation of the situation where no country applying the Cash Basis Standard is able to comply and no consolidation at all is undertaken.

We would favour both Stages 3 and 4 being included in Part 2 of the Standard.

## External assistance

As indicated, in principle we do not think the Cash Basis Standard should have a disclosure requirement that is not also reflected in the Accrual Standards.

Having said this, it is clear that some of the external assistance disclosure requirements present particular problems whereas others are part of good practice:

- Third party payments - we comment on these separately below, but it is clear that the reporting government is totally dependent on donors to provide this information. Hence there is no means of verifying the completeness or accuracy of the information.
- Undrawn technical assistance - it is almost impossible to identify undrawn grants and again any information would have to come from donors and be unverified. Undrawn loans are often not as clear-cut. Very often technical assistance is supplied through a series of credits managed by donors in a different format to the recipient. It is often very difficult or even impossible to match drawn funds with a particular credit line or to establish what is undrawn, especially where bank accounts are managed by donor-funded projects.
- Terms and conditions not met - most recipient countries face a raft of conditionalities imposed by different donors that are rarely fully achieved. In many cases there are no consequences to such failures. It is often infeasible to link conditions with loans or grants on a one to one basis.

What is important and feasible is to disclose the loans and grants received in cash from different sources.

## Third party payments

As above in principle we do not think there should be a requirement in the Cash Basis Standard not in Accrual Standards. Hence we do not favour a mandatory requirement to provide information on third party payments.

For a sovereign government, the most significant third party payments are likely to be direct payments for donor assistance by the donors themselves. There is a spectrum of such situations:

1. Where a donor directly contracts for the supply of goods or services with only an "in principle" agreement by the government - typically the case with EU technical assistance, gifts of equipment and disaster relief, or
2. Where a loan or grant payments are made through a dedicated bank account controlled by the staff of the donor, or

3. As above but where the bank account is controlled by government staff in a Project Implementation Unit operating in accordance with the donor disbursement rules, or
4. As above but controlled by government officials in accordance with the recipient government rules.

Somewhere between 2 and 3 above the payments move from being third party payments to being public money of the recipient. If third party payment information is required, then there is a need for clear rules on the application of the concept as above, with examples.

## Part 2 of the Standard

We are very strongly of the view that Part 2 should remain part of the Cash Basis Standard. The reasons are as follows:

1. Retaining Part 2 within the Standard enables countries to move beyond pure cash basis reporting whilst still remaining compliant with the Standard, and
2. This provides a route to full accrual whilst remaining Cash Basis IPSAS compliant during the transition period
3. By keeping Part 2 within the Standard requirements can be imposed as to the information so presented, e.g. it must be in the Notes, comply with the basic principles of understandability, relevance, reliability and comparability, and
4. Part 2 should also require any such additional information to comply with any relevant accrual standard
5. At present, Part 2 of the Cash Basis Standard is translated at the same time as Part 1. On the other hand, Study 14 is seldom translated and many persons involved in the preparation of financial statements are not aware of the contents of Study 14.

## Conclusion

We continue to advocate the other points in our submission, especially:

- The need for a conceptual framework for the Cash Basis Standard linking it to accrual standards
- The use of a Cash Flow format rather than a Receipts and Payment format, or at least as an option for such in Part 1 of the Standard
- A requirement that any additional information provided in the Notes under Part 2 of the Standard should comply with any relevant accrual IPSAS.

We are available and willing to respond to further queries or to provide specific examples if required and if such are available.

Michael Parry  
Chair  
ICGFM Ad Hoc Committee on Accounting Standards  
[Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com)

## Agenda Item 3.4

### Cash Basis IPSAS

Issued January 2003

Updated 2006, ~~and~~ 2007 and 201X

*International Public Sector Accounting Standard*

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# Financial Reporting Under the Cash Basis of Accounting

## Proposed Amendments

Draft Only for IPSASB review  
(June 2015)

***Annotated to Identify Location  
of Proposed Amendments for  
Limited Scope Review***

International Public Sector Accounting Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

### Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the International Public Sector Accounting Standard *Financial Reporting Under The Cash Basis of Accounting*.

Sections 1.1 to 1.8 of Part 1 of this Standard were issued in 2003. Section 1.9 of Part 1, “Presentation of Budget Information in Financial Statements” was issued in 2006. Amendments were made to paragraphs 1.3.4(c), 1.3.7, 1.3.9(c) and Appendix 1 of Part 1 in 2006 as a consequence of the issue of Section 1.9. Section 1.10 of Part 1, “Recipients of External Assistance” was issued in 2007. Amendments were made to paragraphs 1.3.18 and Appendix 1 of Part 1 in 2007 as a consequence of the issue of Section 1.10.

- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.

Paragraphs 2.1.1 to 2.1.59 of Section 2.1, Section 2.2 and Appendices 2, 3, 4 and 5 were issued in 2003. Paragraphs 2.1.37 to 2.1.40 were added to Part 2 in 2006 to encourage certain disclosures about budget and actual amounts, and paragraph 2.1.36 and Appendix 2 were revised as a consequence. Paragraphs 2.1.64 to 2.1.93 were added to Part 2 in 2007 to encourage certain disclosures about external assistance, and paragraphs 2.1.25, 2.1.30 and Appendix 2 were revised as a consequence.

**Comment [PS1]:** Update to reflect results of this review

**Comment [PS2]:** Update to reflect results of this review

## FINANCIAL REPORTING UNDER THE CASH BUSINESS OF ACCOUNTING

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*IPSASB Meeting (June 2015)*

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# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

## FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

### PART 1: REQUIREMENTS

*Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.*

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.*

#### Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.

Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity’s activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity’s own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

#### 1.1 Scope of the Requirements

**1.1.1** *A **public sector** entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.*

**1.1.2** General purpose financial ~~statements~~ **reports** are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial ~~statements~~ **reports** include taxpayers and ratepayers, members of the legislature, creditors,

**Comment [PS3]:** Update to acknowledge the objectives of financial reporting and users as reflected in the Conceptual Framework.

**Comment [PS4]:** Update to reflect role of the Cash Basis IPSAS in the IPSASB’s standards setting strategy. Acknowledge relationship to Study 14 if appropriate.

**Comment [PS5]:** Scope para amended as consequence of deletion of GBE paras below.

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suppliers, the media and employees. ~~For purposes of this IPSAS, financial statements included in g~~General purpose financial statements—reports are referred to as general purpose financial statements. They include ~~those~~ financial statements that are presented separately or within another public document such as an annual report.

1.1.3 This Standard applies equally to the general purpose financial statements of an individual entity and to the consolidated general purpose financial statements of an economic entity such as a whole-of-government. It requires the preparation of a statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes. ~~It also requires that amounts settled on behalf of the reporting entity by third parties be disclosed on the face of the statement of cash receipts and payments.~~

1.1.4 *An entity whose financial statements comply with the requirements of Part 1 of this Standard should disclose that fact. Financial statements should not be described as complying with this Standard unless they comply with all the requirements in Part 1 of the Standard.*

1.1.5 ~~This Standard applies to all public sector entities other than Government Business Enterprises.~~

1.1.6 ~~The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 1.2.1 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).~~

1.1.7 ~~The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.~~

## 1.2 The Cash Basis

### Definitions

1.2.1 *The following terms are used in this Standard with the meaning specified:*

***Cash*** *comprises cash on hand, demand deposits and cash equivalents.*

**Comment [PS6]:** This paragraph to be updated to reflect wording of accrual IPSASs and the Conceptual Framework as appropriate. For example, to refer to general purpose financial reports, rather than just general purpose financial statements. Proposed text has been included to attempt to forge a link between GPFs and general purpose financial statements. Similar and consequential amendments to be made throughout the text if agreed by IPSASB. Those changes have not yet been made in this draft.

**Comment [PS7]:** This sentence to be removed if third party payments are recast as encouragements.

**Comment [PS8]:** Staff propose deletion, given changes to reference to GBEs in the accrual IPSASs

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***Cash basis*** means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

***Cash equivalents*** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

***Cash flows*** are inflows and outflows of cash.

***Cash payments*** are cash outflows.

***Cash receipts*** are cash inflows.

***Control of cash*** arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

***Government Business Enterprise*** means an entity that has all the following characteristics:

***(a)*** is an entity with the power to contract in its own name;

***(b)*** has been assigned the financial and operational authority to carry on a business;

***(c)*** sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;

***(d)*** is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and

***(e)*** is controlled by a public sector entity.

**Comment [PS9]:** Remove the definition of GBEs to reflect changes in accrual IPSASs

## Cash Basis of Accounting

- 1.2.2 The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

## Cash Equivalents

- 1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to

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qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

- 1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, in some jurisdictions, bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
- 1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

#### **Cash Controlled by the Reporting Entity**

- 1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.
- 1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which a government entity:
  - (a) collects on behalf of its government (or another entity) is deposited in its own bank account before transfer to consolidated revenue or another general government account; and
  - (b) is to transfer to third parties on behalf of its government is initially deposited in its own bank account prior to transfer to the authorized recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to consolidated revenue or another government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on

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behalf of other entities is included in paragraphs 2.1.15 to 2.1.22 of Part 2 of this Standard.

- 1.2.8 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a “single account” basis. Under these arrangements, individual departments and entities do not control their own bank accounts. Rather, government monies are managed by a central entity through a “single” government account or series of accounts. The central entity will make payments on behalf of individual departments and entities after appropriate authorization and documentation. Consequently, individual departments and entities do not control the cash that they have been appropriated or otherwise authorized to expend. In these cases, the expenditures made by individual departments and entities will be reported in a separate column headed “treasury account” (or a similarly described column) in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.24(a).
- 1.2.9 In some cases, the centralized treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognized in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

### 1.3 Presentation and Disclosure Requirements

#### Definitions

1.3.1 *The following terms are used in this Standard with the meanings specified:*

**Accounting policies** are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

**Materiality**: information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.

**Comment [PS10]:** Update wording as necessary to ensure aligns with accrual IPSASs if updated as result of Conceptual Framework

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***Reporting date*** means the date of the last day of the reporting period to which financial statements relate.

***Economic entity*** means a ~~group of entities comprising a controlling entity and one or more its controlled entities.~~

**Comment [PS11]:** Updated to reflect changed wording in IPSAS 35

- 1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.
- 1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.

## Financial Statements

1.3.4 *An entity should prepare and present general purpose financial statements which include the following components:*

- (a) *a statement of cash receipts and payments which:*
- (a) *recognizes all cash receipts, cash payments and cash balances controlled by the entity; and*
- (b) ~~*separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;*~~
- (b) *accounting policies and explanatory notes; and*
- (c) *when the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.9.8 of this Standard.*

**Comment [PS12]:** This sentence to be removed if third party payments are recast as encouragements. Consequential amendments to be made to para 1.3.7 below and other text as appropriate.

1.3.5 *When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.*

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- 1.3.6 The general purpose financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a)(i) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.
- 1.3.7 Paragraph 2.X.X1.3.24 of Part 2 of this this Standard encouragesrequires disclosure on the face of the statement of cash receipts and payments of certain payments made by third parties on behalf of the reporting entity. Payments made by third parties will not satisfy the definition of cash, cash payments and cash receipts as defined in paragraph 1.2.1 of this Standard and will not be presented as cash receipts and payments controlled by the reporting entity in the statement of cash receipts and payments or other statements that might be prepared by the reporting entity. Paragraph 1.9.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.
- 1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.
- 1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:
- (a) report cash receipts, cash payments and cash balances for major fund categories such as the consolidated revenue fund;
  - (b) provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or
  - (c) provide a comparison of actual and budget amounts.

**Comment [PS13]:** Subject to the IPSASB decision on third party payments, this paragraph will be revised to reflect that the disclosure is encouraged.

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In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

- 1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:
- (a) receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;
  - (b) commitments and contingent liabilities; and
  - (c) performance indicators and the achievement of service delivery objectives.
- 1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

#### **Information to be Presented in the Statement of Cash Receipts and Payments**

- 1.3.12 *The statement of cash receipts and payments should present the following amounts for the reporting period:*
- (a) *total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;*
  - (b) *total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and*
  - (c) *beginning and closing cash balances of the entity.*
- 1.3.13 *Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:*

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- (a) *they arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or*
- (b) *they are for items in which the turnover is quick, the amounts are large, and the maturities are short.*

**1.3.14** *Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.*

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

**Classification**

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12 and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objective and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of financial reporting. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other governments or entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-

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classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

### Line items, headings and sub-totals

- 1.3.18 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard (for example, paragraph 1.10.8 requires that total external assistance received in cash during the period be disclosed separately on the face of the Statement of Cash Receipts and Payments); assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Paragraphs 2.1.23 to 2.1.30 of Part 2 of this Standard set out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

### Reporting on a net basis

- 1.3.19 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.20 to 1.3.21 below further elaborate on those circumstances in which reporting on a net basis may be justified.
- 1.3.20 Governments and government departments and other government entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:
- (a) the collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;
  - (b) the acceptance and repayment of demand deposits of a financial institution;
  - (c) funds held for customers by an investment or trust entity;
  - (d) rents collected on behalf of, and paid over to, the owners of properties;
  - (e) transfers by a government department to third parties consistent with legislation or other government authority; and

**Comment [PS14]:** Paragraph to be updated to reflect IPSASB decisions regarding current requirements that may be relocated to encouragements

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- (f) funds administered by a central entity under the “single account” basis for management of government expenditure (as referred to in paragraph 1.2.8).
- 1.3.21 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited in trust accounts for, or directly in the bank account of, the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.
- 1.3.22 In some cases, the amounts of the cash flows arising from administered transactions which “pass-through” the bank account of the reporting entity may be large relative to the entity’s own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:
- (a) the purchase and sale of investments; and
  - (b) other short-term borrowings, for example, those which have a maturity period of three months or less.
- 1.3.23 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some governments and government entities to communicate information about cash receipts and cash payments resulting from the entity’s own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Payments by third parties on behalf of the **entity**

**Staff Comment - Third Party Payments**

Staff propose that requirements relating to payments by third parties that are not part of the economic entity be relocated to Part 2 as encouraged disclosures. Consequently paragraphs 1.3.24 to 1.3.29 or parts thereof will, as appropriate, be revised and relocated to encouraged disclosures in Part 2.

- 1.3.24 *Where, during a reporting period, a third party **which is part of the economic entity to which the reporting entity belongs** directly settles the obligations of **the***

**Comment [PS15]:** Staff propose this section be relocated to Part 2 as an encouraged disclosure

**Comment [PS16]:** STAFF COMMENT INCLUDED IN BOXED TEXT

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*reporting an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments:*

- (a) *total payments made by ~~the third parties which are part of the economic entity to which the reporting entity belongs~~, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and*
- (b) *~~total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operation.~~*

*Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.*

- 1.3.25 Where a government manages the expenditure of its individual departments and other entities through a centralized treasury function or a “single account” arrangement, payments are made on behalf of those departments and entities by a central entity after appropriate authorization and documentation from the department. In these cases, the department or other entity does not control cash inflows, cash outflows and cash balances. However, the department or other entity benefits from the payments being made on its behalf, and knowledge of the amount of these payments is relevant to users in identifying the cash resources the government has applied to the entity’s activities during the period. Consistent with paragraph 1.3.24(a) above, the department or other entity reports in a separate column on the face of the statement of cash receipts and payments, the amount of payments made by the central entity on its behalf, and the sources and uses of the amount expended sub-classified on a basis appropriate for the department or other entity. These disclosures will enable users to identify the total amount of payments made, the purposes for which they were made and whether, for example, the payments were made from amounts allocated or appropriated from general revenue or from special purpose funds or other sources.
- 1.3.26 In some jurisdictions, government departments or other entities may be established with their own bank accounts and will control certain cash inflows, cash outflows and cash balances. In these jurisdictions, government directions or instructions may also require one department or other government entity to settle certain obligations of another department or entity, or to purchase certain goods or services on behalf of another department or entity. Consistent with paragraph 1.3.24(a) above the reporting entity reports in a separate column on the face of

**Comment [PS17]:** Staff propose that the disclosure of third party payments from entities that are not part of the economic entity be recast as encouragement in Part 2 of the IPSAS. The final sentence which identifies the circumstances in which such encouragement is intended to apply will also be included in the encouragement.

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the statement of cash receipts and payments the amount, sources and uses of such expenditures made on its behalf during the reporting period. This will assist users in identifying the total cash resources of the economic entity which have been applied to the entity's activities during the reporting period, and the sources and uses of those cash resources.

- 1.3.27 In some cases, third parties which are not part of the economic entity to which the reporting entity belongs purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for a particular government rather than providing the funds directly to the government itself. These payments may be made by way of a grant or other aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the government benefits from the cash payments being made on its behalf.
- 1.3.28 Paragraph ~~2.x.x1-3.24(b) above requires~~ encourages that an entity to report in a separate column on the face of its statement of cash receipts and payments, the amount, sources and uses of expenditures made by third parties which are not part of the economic entity to which it belongs. This will enable users to identify the total cash resources being applied to the entity's activities during the reporting period, and the extent to which those resources are provided from parties which are, and which are not, part of the government to which the reporting entity belongs. In some cases, as at reporting date an entity may not be aware that payments have been made on their behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Paragraph 1.3.24 above requires that third party payments only be disclosed on the face of the statement of cash receipts and payments when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence.
- 1.3.29 The sub-classifications (or classes) of sources and uses of third party payments which will be disclosed in accordance with paragraphs 1.3.24(a) and 1.3.24(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17.

**Comment [PS18]:** Paras 1.3.27 , 1.3.28, 1.3.29 to be repositioned and/or revised to reflect that disclosure of certain third party payments are only encouraged.

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**Accounting Policies and Explanatory Notes**

**Structure of the Notes**

**1.3.30** *The notes to the financial statements of an entity should:*

- (a) present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and*
- (b) provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.*

**1.3.31** *Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.*

**Selection and Disclosure of Accounting Policies**

**1.3.32** *General purpose financial statements should present information that is:*

- (a) understandable;*
- (b) relevant to the decision-making and accountability needs of users; and*
- (c) reliable in that it:*
  - (i) represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;*
  - (ii) is neutral, that is, free from bias; and*
  - (iii) is complete in all material respects.*

**1.3.33** The quality of information provided in general purpose financial statements determines the usefulness of that statement to users. Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 4 of this Standard summarizes the qualitative characteristics of financial reporting. The appendix also notes that the timeliness of information may impact upon both the relevance and reliability of the financial information. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the general purpose financial statement.

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- 1.3.34** *The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.*
- 1.3.35** *Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.*
- 1.3.36** In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.34 above also apply to notes to the financial statements.
- 1.3.37** *Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures should comply with the requirements of paragraph 1.3.32 above.*
- 1.3.38** Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

## **1.4 General Considerations**

### **Reporting Period**

- 1.4.1** *The general purpose financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements:*
- (a) the reason(s) for a period other than one year being used; and*
  - (b) the fact that comparative amounts may not be comparable.*
- 1.4.2** The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that

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users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

- 1.4.3 Normally, the financial statements are consistently prepared covering a one-year period. However, some entities prefer to report, for example, for a 52 week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different from that which would be presented for one year.

### Timeliness

- 1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

### Authorization Date

- 1.4.5 *An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.*
- 1.4.6 The authorization date is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

### Information about the Entity

- 1.4.7 *An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:*
- (a) *the domicile and legal form of the entity, and the jurisdiction within which it operates;*

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- (b) *a description of the nature of the entity's operations and principal activities;*
- (c) *a reference to the relevant legislation governing the entity's operations, if any; and*
- (d) *the name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).*

1.4.8 The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

### Restrictions on Cash Balances and Access to Borrowings

1.4.9 *An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:*

- (a) *significant cash balances that are not available for use by the entity;*
- (b) *significant cash balances that are subject to external restrictions; and*
- (c) *undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.*

1.4.10 Cash balances held by an entity would not be available for use by the entity when, for example, a controlled entity operates in a country where exchange controls or other legal restrictions apply and the balances are not available for general use by the controlling entity or other controlled entities.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

**Comment [PS19]:** This requirement will be revisited following the IPSASB's decisions regarding undrawn balances of external assistance loans. This disclosure is an encouragement, rather than requirement, in IPSAS 2.

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### Consistency of Presentation

**1.4.13** *The presentation and classification of items in the financial statements should be retained from one period to the next unless:*

- (a) a significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or*
- (b) a change in presentation is required by a future amendment to this Standard.*

1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing, government entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's general purpose financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, a government may dispose of a government savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements identifying a financial institution as a principal activity of the government is unlikely to be relevant.

1.4.15 Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19. Where an entity complies with this International Public Sector Accounting Standard, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.

### Comparative Information

**1.4.16** *Unless a provision of this Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.*

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- 1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.
- 1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.
- 1.4.19 *When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.***
- 1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

### **Identification of Financial Statements**

- 1.4.21 *The financial statements should be clearly identified and distinguished from other information in the same published document.***
- 1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.
- 1.4.23 *Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and***

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*repeated when it is necessary for a proper understanding of the information presented:*

- (a) *the name of the reporting entity or other means of identification;*
- (b) *whether the financial statements cover the individual entity or the economic entity;*
- (c) *the reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;*
- (d) *the reporting currency; and*
- (e) *the level of precision used in the presentation of figures in the financial statements.*

- 1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.
- 1.4.25 Financial statements are often made more understandable by presenting information in thousands or millions of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

## 1.5 Correction of Errors

### Staff Comment - Correction of Errors

Staff propose that this section be revised to reflected relevant changes in IPSAS 3 “*Accounting Policies, Changes in Accounting Estimates and Errors*” since issue of the Cash Basis IPSAS. Consequently paragraphs 1.5.1 to 1.5.6 will, as appropriate, be revised.

- 1.5.1 *When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period. Comparative information should be restated, unless it is impracticable to do so.*
- 1.5.2 *An entity should disclose in the notes to the financial statements the following:*

**Comment [PS20]:** STAFF COMMENT INCLUDED IN BOXED TEXT

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- (a) *the nature of the error;*
- (b) *the amount of the correction; and*
- (c) *the fact that comparative information has been restated or that it is impracticable to do so.*

- 1.5.3 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the error and the financial statements, including the comparative information for prior periods, is presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.
- 1.5.4 The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.
- 1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

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1.6 Consolidated Financial Statements

**Staff Comment – Consolidated Financial Statements**

**Comment [PS21]:** STAFF COMMENT INCLUDED IN BOXED TEXT

Staff propose that consolidation of all controlled entities (subject to specified exclusions) should not be required. Rather this section should be refocused on the consolidation procedures, such that:

- (a) The section should continue to require application of the consolidation procedures and disclosures identified in paragraphs 1.6.16 to 1.6.20 (subject to any refinements necessary to align with IPSAS 35) and allow the transitional provisions in paragraph 1.6.21; but
- (b) The requirement in paragraph 1.6.5 to 1.6.8 to issue consolidated financial statements which consolidate all controlled entities, and the related exclusions, should be recast as encouragements in Part 2 of the IPSAS and updated to reflect IPSAS 35 as appropriate; and
- (c) Part 1 would simply require that any consolidated financial statements that are prepared will apply the procedures identified in paragraph 1.6.16. Commentary supporting this requirement would explain its implications and link to the encouragement in Part 2.

If this approach is agreed by the IPSASB, much, but not necessarily all of the explanation in paragraphs 1.6.9 to 1.6.15 will also be relocated to Part 2.

Staff's initial views on likely amendments are noted below.

**Definitions**

1.6.1 *The following terms are used in this Standard with the meanings specified:*

**Consolidated financial statements** are the financial statements of an economic entity presented as that of a single entity.

**Control of an entity** is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

**Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).

**Controlling entity** is an entity that has one or more controlled entities.

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***Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.***

**Economic Entity**

- 1.6.2 The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
- 1.6.3 Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial reporting entity”, “consolidated entity” and “group”.
- 1.6.4 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

**Scope of Consolidated Financial Statements**

- ~~1.6.5 A controlling entity, other than a controlling entity identified in paragraphs 1.6.7 and 1.6.8, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than those referred to in paragraph 1.6.6.~~

“Where two or more separate entities prepare and present GPFs as if they are a single entity, the consolidation procedures identified in paragraph 1.6.16 and disclosure requirements in paragraph 1.6.20 shall be applied.”

- ~~1.6.6 A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.~~
- ~~1.6.7 A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements.~~
- ~~1.6.8 A controlling entity that is virtually wholly owned need not present consolidated financial statements provided the controlling entity obtains the approval of the owners of the minority interest.~~
- 1.6.9 Users of the financial statements of a government or other public sector controlling entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served

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by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

**Staff Comment – Amendments to commentary paragraphs**

Much of paragraphs 1.6.10 to 1.6.15 will be moved to encouragements. Staff propose they be replaced and/or added to by commentary paragraphs which note that:

- (a) The IPSAS does not require that consolidated financial statements that include all controlled entities be prepared. Nor does it specify the controlled entities that comprise a group reporting entity for consolidation purposes, or the circumstances in which consolidated financial statements are to be prepared;
- (b) Rather, it establishes the procedures that are to be adopted in the preparation of any consolidated financial statements that are prepared.
- (c) The IPSASB is of the view that a controlling entity should prepare consolidated GPFs which consolidate all controlled entities. However, the IPSASB acknowledges that this may not be possible for many entities on initial adoption of the Cash Basis IPSAS for a number of reasons, including capacity constraints that limit the ability to collect and process data in a timely fashion; and
- (d) Controlling entities are encouraged to progressively work through these obstacles and move to the preparation of consolidated financial statements that consolidated all controlled entities. Part 2 of this Standard encourages the preparation of such consolidated financial statements and sets out factors to be considered in determining which entities should be included in the group reporting entity for financial reporting purpose.

1.6.10 Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the requirements of paragraph 1.6.5 above, the statement of cash receipts and payments prepared by a government or other public sector reporting entity which is a controlling entity, will consolidate the cash receipts, cash payments and cash balances of all the entities it controls. The note disclosures required by Part 1 of this Standard will also be presented on a consolidated basis. Appendix 5 of this Statement illustrates the application of the concept of control in determining the financial reporting entity.

**Comment [PS22]:** STAFF COMMENT INCLUDED IN BOXED TEXT

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- 1.6.11 This Standard does not preclude the preparation of financial statements additional to the statement of cash receipts and payments. Those additional statements may, for example, disclose additional information about receipts and payments related to certain fund groups or provide additional details about certain types of cash flows. Part 2 of this Standard identifies additional disclosures that an entity is encouraged to make. The additional statements and disclosures will also report consolidated information where appropriate.
- 1.6.12 For financial reporting purposes, the reporting entity (financial reporting entity) may consist of a number of controlled entities including government departments, agencies and Government Business Enterprises (GBEs). Determining the scope of the financial reporting entity can be difficult due to the large number of potential entities. For this reason, financial reporting entities are often determined by legislation. In some cases, the financial reporting entity required by this Standard may differ from the reporting entity specified by legislation and additional disclosures may be necessary to satisfy the legislative reporting requirements.
- 1.6.13 A controlling entity that is itself wholly owned by another entity (such as a government agency which is wholly owned by the government), is not required to present consolidated financial statements when such statements are not required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector, many controlling entities that are either wholly owned or virtually wholly owned represent key sectors or activities of a government. In these cases, the information needs of certain users may not be served by the presentation of a consolidated financial statement at a whole-of-government level alone, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In many jurisdictions, governments have acknowledged this and have legislated the financial reporting requirements of such entities.
- 1.6.14 In some jurisdictions, a controlling entity which is virtually wholly owned by another entity (such as a government enterprise which has some minor ownership from the private sector) is also exempted from presenting consolidated financial statements if the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power. For the purpose of this Standard, the minority interest is that part of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

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- 1.6.15 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare a consolidated financial statement. Where there is no requirement for an intermediate controlling entity to prepare consolidated financial statements but users of general purpose financial statements of the economic entity are likely to exist, intermediate controlling entities are encouraged to prepare and publish such a statement.

### Consolidation Procedures

- 1.6.16 *The following consolidation procedures apply:*

- (a) *cash balances and cash transactions between entities within the economic entity should be eliminated in full;*
- (b) *when the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months; and*
- (c) *consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.*

- 1.6.17 The consolidation procedures outlined in paragraph 1.6.16 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.

- 1.6.18 The consolidated financial statements should only reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public

**Comment [PS23]:** Paragraphs 1.6.10 to 1.6.15 to be moved to Part 2 and revised as appropriate.

**Comment [PS24]:** Paragraphs 1.6.16 to 1.6.19 to be reviewed and, as necessary and appropriate, updated to align with relevant terminology and guidance in IPSAS 35.

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sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a GBE operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction would result in understating the cash balance of the economic entity and overstating its cash payments.

- 1.6.19 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

### Consolidation Disclosures

1.6.20 *The following disclosures should be made in consolidated financial statements:*

- (a) *a listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity); and*
- (b) *the reasons for not consolidating a controlled entity.*

### Transitional Provisions

- 1.6.21 Controlling entities that adopt this Standard may have large numbers of controlled entities with significant volumes of transactions between those entities. Accordingly, it may be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 1.8.2 provides relief, during the transitional period, from the requirement to eliminate all cash balances and transactions between entities within the economic entity. However, paragraph 1.8.3 requires that entities which apply the transitional provision should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

## 1.7 Foreign Currency Definitions

1.7.1 *The following terms are used in this Standard with the meanings specified:*

*Closing rate is the spot exchange rate at the reporting date.*

**Comment [PS25]:** Paragraphs 1.7.1 to 1.7.8 to be reviewed and, as necessary and appropriate, updated to align with relevant definitions and guidance in IPSAS 4 “*The Effects Of Changes In Foreign Exchange Rates*”

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**Exchange difference** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

**Exchange rate** is the ratio for exchange of two currencies.

**Foreign currency** is a currency other than the reporting currency of an entity.

**Reporting currency** is the currency used in presenting the financial statements.

### **Treatment of Foreign Currency Cash Receipts, Payments and Balances**

- 1.7.2 *Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.*
- 1.7.3 *Cash balances held in a foreign currency should be reported using the closing rate.*
- 1.7.4 *The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments.*
- 1.7.5 *An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.*
- 1.7.6 *When the reporting currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.*
- 1.7.7 *Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency or purchasing goods and services where the purchase price is designated as a foreign currency amount. They may also have foreign operations and transfer cash to and receive cash from those foreign operations. In order to include foreign currency transactions and foreign operations in financial statements the entity must express cash receipts, payments and balances in reporting currency terms.*
- 1.7.8 *Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash*

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receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts payments and balances been reported at end-of-period exchange rates.

## 1.8 Effective Date of Sections 1 to 7 of Part 1 and Transitional Provisions

### Effective Date

- 1.8.1 *Sections 1 to 7 of Part 1 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 2004. Earlier application is encouraged.*

### Transitional Provisions - Consolidated Financial Statements

- 1.8.2 *Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.*
- 1.8.3 *Where entities apply the transitional provision in paragraph 1.8.2, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.*

**Comment [PS26]:** Section to be updated to reflect outcome of this review

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## 1.9 Presentation of Budget Information in Financial Statements Definitions

1.9.1 *The following terms are used in this Standard with the meanings specified:*

*Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.*

*Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.*

*Appropriation is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.*

*Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.*

*Budgetary basis means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.*

*Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.*

*Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority, changes applicable to the budget period.*

*Multi-year budget is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.*

*Original budget is the initial approved budget for the budget period.*

### Approved Budgets

1.9.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly,

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an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

- 19.3 In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.
- 1.9.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

**Original and Final Budget**

- 1.9.5 The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances and include outstanding purchase orders and contracts where goods or services have not yet been received.
- 1.9.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

**Actual Amounts**

- 1.9.7 This Standard uses the term “actual” or “actual amounts” to describe the amounts that result from execution of the budget. In some jurisdictions, “budget

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out-turn”, “budget execution” or similar terms may be used with the same meaning as “actual” or “actual amounts”.

**Presentation of a Comparison of Budget and Actual Amounts**

**1.9.8** *Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:*

- (a) The original and final budget amounts;*
- (b) The actual amounts on a comparable basis; and*
- (c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.*

**Scope**

1.9.9 This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.9.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government’s financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

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**Comparison of Budget and Actual Amounts**

- 1.9.11 Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the “variance” in accounting), may also be presented in the financial statements for completeness.
- 1.9.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.
- 1.9.13 An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances where both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.9.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.
- 1.9.14 In many cases, the final budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.9.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.9.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.
- 1.9.15 Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.9.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in

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notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.

- 1.9.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.9.8 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 1.9.8 will be made only in respect of the general government sector of the government.

### Presentation

**1.9.17** *An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.*

1.9.18 Comparisons of budget and actual amounts may be presented in a separate financial statement (“statement of comparison of budget and actual amounts” or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure - additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.9.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

### Level of Aggregation

1.9.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common “budget heads”, “budget classifications” or “budget headings” for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget

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heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).

- 1.9.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as identified in paragraph 1.3.32 of this Standard.
- 1.9.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

**Changes from Original to Final Budget**

**1.9.23** *An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, either:*

- (a) by way of note disclosure in the financial statements; or*
- (b) in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.*

1.9.24 The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

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**Comparable Basis**

**1.9.25** *All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.*

1.9.26 The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.9.27 Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.9.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.9.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash receipts and payments and balances thereof. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.9.29 In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the

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general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government.

- 1.9.30 In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state or local governments, its financial statement will not consolidate state/provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

**Multi-year Budgets**

- 1.9.31 Some governments and other entities approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.
- 1.9.32 Governments and other entities with multi-year budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the “original” budget for the second year period will be increased for these “carry over” amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period for determining the annual budget for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring

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revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the “original” budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

#### **Note Disclosures of Budgetary Basis, Period and Scope**

- 1.9.33** *An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.*
- 1.9.34 There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.
- 1.9.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc) or function (health, education, etc). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).
- 1.9.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.
- 1.9.37** *An entity shall disclose in notes to the financial statements the period of the approved budget.*

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- 1.9.38 Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.
- 1.9.39 *An entity shall identify in notes to the financial statements the entities included in the approved budget.*
- 1.9.40 Paragraph 1.6.5 of this Standard requires controlling entities to prepare and present consolidated financial statements which encompass budget-dependant entities and GBEs controlled by the government. However, as noted in paragraph 1.9.29, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 1.9.25, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

**Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements**

- 1.9.41 *The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.9.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.*
- 1.9.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the financial statements can usefully be classified into the following:
- (a) budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the accrual basis or modified cash basis and the financial statements are prepared on the cash basis;

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- (b) timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and
- (c) entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

- 1.9.43 The reconciliation required by paragraph 1.9.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognized in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.
- 1.9.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multi-year budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.
- 1.9.45 *The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***
- 1.9.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

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## Effective Date of Section 1.9 of Part 1

1.9.47 *An entity shall apply Section 1.9 of this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after January 1, 2009. Earlier application is encouraged. If an entity applies Section 1.9 of this Standard for a period beginning before January 1, 2009 it shall disclose that fact.*

1.9.48 When an entity adopts this Standard subsequent to the effective date of Section 1.9 as specified in paragraph 1.9.47, paragraphs 1.9.1 to 1.9.46 of this Standard apply to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## 1.10 Recipients of External Assistance

### Definitions

1.10.1 *The following terms are used in this Standard with the meaning specified:*

*Assigned External Assistance means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.*

*Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.*

*External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.*

*Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.*

*Non-Governmental Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or to individuals.*

*Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.*

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***Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity.***

- 1.10.2 Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases, preparers, auditors and users of general purpose financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

**External Assistance**

- 1.10.3 External assistance is defined in paragraph 1.10.1 as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined in paragraph 1.10.1 does not encompass assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement. Assistance received from NGOs, whether in the form of cash donations or third party settlements, will be presented in the financial statements and disclosed in explanatory notes in accordance with the requirements of Sections 1.1 to 1.9 of Part 1 of this Standard. Paragraph 2.1.64 encourages, but does not require, application of the disclosures required by paragraphs 1.10.1 to 1.10.27 to assistance received from NGO's where practicable.
- 1.10.4 NGOs as defined in paragraph 1.10.1 are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organization is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organization provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance and, therefore, is subject to the disclosure requirements specified in this section.

**Comment [PS27]:** If agreed, Paragraph 1.10.3 to be updated to reflect the repositioning of third party payments as an encouragement.

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**Official Resources**

1.10.5 Official resources are defined in paragraph 1.10.1 to be resources committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation does not satisfy the definition of official resources, and therefore is not external assistance.

**External Assistance Agreements**

1.10.6 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organizations. These may include meetings to discuss the government's macroeconomic plans and its development assistance needs, or bilateral discussions at governmental level regarding trade finance, military assistance, balance of payments and other forms of assistance. They may also include separate meetings to consider the country's emergency assistance needs as those needs arise. Initial discussions may result in statements of intent or pledges which are not binding on the government or the external assistance agency. However, subsequently binding agreements may be set in place to make available assistance loans or grants provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the recipient entity.

1.10.7 External assistance agreements may provide for the entity to:

- (a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;
- (b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or
- (c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services in-kind to the recipient.

**Comment [PS28]:** Staff propose adding a para to note that disclosure of third party payments and goods and services are encouraged in part 2 of the IPSAS

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External Assistance Received

**Staff comment: External Assistance**

Staff proposes that the requirements for disclosure of external assistance be recast as encouragements, except for paragraphs 1.10.8 which requires the disclosure of total external assistance in cash and paragraphs 1.10.10 and 1.10.11 which require disclosure of the classes of provider of cash assistance and whether the cash assistance was provided by way of grant or loan. Staff propose paragraphs 1.10.8, 1.10.10 and 1.10.11 are retained as requirements in the ED. Consequential redrafting and, as appropriate, repositioning will be made to paragraphs 1.10.12 to 1.10.17

**Comment [PS29]:** STAFF COMMENT INCLUDED IN BOXED TEXT

*1.10.8 The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.*

*1.10.9 ~~The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately:~~*

**Comment [PS30]:** Staff propose that this paragraph be revised and reinstated as an encouragement.

*~~(a) Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and~~*

*~~(b) Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs.~~*

*~~These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.~~*

*1.10.10 Where external assistance is received in cash from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.*

*1.10.11 Where external assistance is received in cash is in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.*

**Comment [PS31]:** Drafting is intended to make it clear that these disclosures relate only to external assistance received in cash/

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- 1.10.12 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the reporting entity. In some cases:
- (a) The third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example, external assistance in the form of cash is provided for the benefit of a program run by a particular department in a jurisdiction where the government manages the expenditure of its individual departments and other entities through a centralized treasury function or a “single account” arrangement. In these cases, the treasury or other central agency receives the external assistance and makes payments of amounts provided by way of external assistance on behalf of the department, after appropriate authorization and documentation from the department; or
  - (b) The third party may not be part of the economic entity to which the reporting entity belongs - this will occur where, for example, an aid agency makes a debt repayment to a regional development bank on behalf of a government agency, pays a construction company directly for building a road for a particular government agency rather than providing the funds directly to the government agency itself, or funds the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring on behalf of the government the necessary supplies during the period.
- 1.10.13 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance paid by third parties should only be disclosed in the statement of Cash Receipts and Payments when the reporting entity has been formally advised that such payments have been made during the reporting period or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance received is also encouraged, but not required (see paragraph 2.1.66).
- 1.10.14 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity’s dependence on particular classes of providers and will be relevant to an assessment of the sustainability of the assistance. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of

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assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).

- 1.10.15 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of this Standard.
- 1.10.16 National governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The national government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be different than initially received. In some cases, a small fee or interest spread is charged to cover the national government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognize or report the external assistance as it is received. It will also record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.
- 1.10.17 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of this Standard.

**Comment [PS32]:** Paragraphs 1.10.12 to 1.10.14 to be revised or relocated as appropriate to reflect that only the disclosure of external assistance received as cash is required.

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## Undrawn External Assistance

### Staff Comment: Undrawn External Assistance

It is proposed that the requirement to disclose information about undrawn external assistance be recast as an encouragement and relocated to Part 2 of the IPSAS. Consistent with this proposal, paragraphs 1.10.18 to 1.10.20 below will be revised and moved to Part 2 of the IPSAS as appropriate.

**Comment [PS33]:** STAFF COMMENT INCLUDED IN BOXED TEXT

~~1.10.18 The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:~~

~~(a) — total external assistance loans; and~~

~~(b) — total external assistance grants.~~

~~Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.~~

~~1.10.19 The amount of external assistance currently committed under a binding agreement(s) but not yet drawn may be significant. In some cases, the amount of the assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. Where such undrawn balances are provided in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the reporting dates in accordance with the provisions of paragraph 1.7.3 of this Standard.~~

~~1.10.20 In some cases, a donor entity may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods — for example, this may occur where the amount of assistance to be provided is dependent on the annual budget of the donor nation or other sources of funding that may be secured by the recipient. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date — for~~

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~~example, this may occur in respect of balance of payment assistance to be provided on achievement of specified performance criteria, or emergency assistance to be provided subject to the amount of assistance provided by other agencies. In these cases, disclosure of the undrawn amounts is not made. In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance is highly likely.~~

### Receipt of Goods or Services

**1.10.21** *Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.*

**1.10.22** Paragraph 2.1.90 of this Standard encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. Paragraph 1.3.38 of this Standard explains that where encouraged disclosures are included in notes to the financial statements, they will need to be understandable and to satisfy the other qualitative characteristics of financial information. Where an entity elects to make such disclosures, it is required to disclose in the notes to the financial statements the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

### Disclosure of Debt Rescheduled or Cancelled

#### **Staff Comment: Rescheduled or Cancelled Debt and Non Compliance...**

It is proposed that the requirement to disclose information about “*Debt Rescheduled or Cancelled*” and “*Non Compliance...*” be recast as an encouragement and relocated to Part 2 of the IPSAS. Consistent with this proposal, paragraphs 1.10.23 to 1.10 27 below will be revised and moved to Part 2 of the IPSAS as appropriate.

**Comment [PS34]:** STAFF COMMENT INCLUDED IN BOXED TEXT

**1.10.23** ~~*An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.*~~

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~~1.10.24 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt or cancellation of the debt. Disclosure of the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions, will alert users of the financial statements that such renegotiation or cancellation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.~~

**Disclosure of Non-Compliance with Significant Terms and Conditions**

~~1.10.25 An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non-compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.~~

1.10.26 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds, as well as some procedural terms and conditions.

1.10.27 The disclosures required by paragraph 1.10.25 will enable readers to identify the instances of non-compliance that have adversely affected the funds that are available to support the entity's future operations. It will also provide input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non-compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.83).

**Effective Date of Section 1.10 and Transitional Provisions**

1.10.28 Paragraphs 1.10.1 to 1.10.34 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after ~~1 January 2009~~.

1.10.29 Entities are not required to disclose comparative figures for amounts disclosed in accordance with paragraphs 1.10.1 to 1.10.27 in the first year of application of paragraphs 1.10.1 to 1.10.34 of this Standard.

1.10.30 ~~Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance as specified in paragraph 1.10.18 for a period of two years from the date of first application of paragraphs 1.10.1 to 1.10.34 of this Standard.~~

**Comment [PS35]:** Effective date and transitional provisions to be updated to reflect IPSASB decisions.

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- 1.10.31** *When an entity applies the transitional provisions in paragraph 1.10.29 ~~and 1.10.30~~, it should disclose that it has done so.*
- 1.10.32 In the first year of application of the requirements of paragraphs 1.10.1 to 1.10.27 of this Standard, an entity may not have readily available, or reasonable access to, the information necessary to enable it to satisfy the requirement to disclose comparative information. It may also not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.10.18.
- 1.10.33 Paragraph 1.4.16 of this Standard provides relief from the requirement to disclose comparative information for the previous period on initial application of the Standard. Some entities may have adopted the Cash Basis IPSAS prior to its amendment to include the requirements relating to disclosure of information by recipients of external assistance as specified in paragraphs 1.10.1 to 1.10.27. Paragraph 1.10.29 provides relief from the requirement to disclose comparative information about external assistance as specified in paragraphs 1.10.1 to 1.10.27 in this Standard in the first year of application of those paragraphs. Paragraph 1.10.30 provides relief from the requirement to apply paragraph 1.10.18 for a period of two years from initial application of that paragraph.
- 1.10.34 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.31 requires that entities that make use of these transitional provisions disclose that they have done so.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

## APPENDIX 1: Illustration of the Requirements of Part 1 of the Standard

*This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for a government that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:*

*A **Government** which is a recipient of external assistance;*

*A **Government Entity** which controls its own bank account, and is not a recipient of external assistance; and*

*A **Government Department** which operates under a “single account” system such that a central entity administers cash receipts and payments on behalf of the Department, and is not a recipient of external assistance.*

### Staff Comment: Illustrations

The illustrations will be updated to reflect the IPSASB decisions regarding amendments to the text.

**Comment [PS36]:** STAFF COMMENT INCLUDED IN BOXED TEXT

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

**Appendix 1a – A Government**

**CONSOLIDATED FINANCIAL STATEMENTS FOR GOVERNMENT A**  
**CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED**  
**31 DECEMBER 200X**  
**(RECEIPTS ONLY)**

| (in thousands of currency units)              | Note | 2000X  |                              | 200X-1   |                              |
|---|------|--|------------------------------|--|------------------------------|
|   |      | Receipts/<br>(Payments)<br>controlled<br>by entity | Payments by<br>third parties | Receipts/<br>(Payments)<br>controlled<br>by entity | Payments by<br>third parties |
| <b>RECEIPTS</b>                               |      |  |                              |  |                              |
| <i>Taxation</i>                               |      |  |                              |  |                              |
| Income tax                                    |      | X  | -                            | X  | -                            |
| Value-added tax                               |      | X  | -                            | X  | -                            |
| Property tax                                  |      | X  | -                            | X  | -                            |
| Other taxes                                   |      | <u>X</u>   | -                            | <u>X</u>   | -                            |
|   |      | X  | -                            | X  | -                            |
| <i>External Assistance</i>                    |      |  |                              |  |                              |
| Multilateral Agencies                         | 10   | X  | X                            | X  | X                            |
| Bilateral Agencies                            |      | <u>X</u>   | <u>X</u>                     | <u>X</u>   | <u>X</u>                     |
|   |      | X  | X                            | X  | X                            |
| <i>Other Grants and Aid</i>                   |      |  |                              |  |                              |
|   |      | X  | X                            | X  | X                            |
| <i>Other Borrowings</i>                       |      |  |                              |  |                              |
| Proceeds from borrowing                       | 3    | X  | X                            |  |                              |
| <i>Capital Receipts</i>                       |      |  |                              |  |                              |
| Proceeds from disposal of plant and equipment |      | X  | -                            | X  | -                            |
| <i>Trading Activities</i>                     |      |  |                              |  |                              |
| Receipts from trading activities              |      | X  | -                            | X  | -                            |
| <i>Other receipts</i>                         |      |  |                              |  |                              |
|   | 4    | <u>X</u>   | <u>X</u>                     | <u>X</u>   | <u>X</u>                     |
| <b>Total receipts</b>                         |      | <u>X</u>   | <u>X</u>                     | <u>X</u>   | <u>X</u>                     |

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| (in thousands of currency units)             | Note | <-----200X----->                                   |                              | <-----200X-1----->                                 |                              |
|--|------|--|------------------------------|--|------------------------------|
|  |      | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>third parties | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>third parties |
| <b>PAYMENTS</b>                              |      |  |                              |  |                              |
| <i>Operations</i>                            |      |  |                              |  |                              |
| Wages, salaries and employee benefits        |      | (X)  | (X)                          | (X)  | (X)                          |
| Supplies and consumables                     |      | (X)  | (X)                          | (X)  | (X)                          |
|  |      | (X)  | (X)                          | (X)  | (X)                          |
| <i>Transfers</i>                             |      |  |                              |  |                              |
| Grants                                       |      | (X)  | -                            | (X)  | -                            |
| Other transfer payments                      |      | (X)  | -                            | (X)  | -                            |
|  |      | (X)  | -                            | (X)  | -                            |
| <i>Capital Expenditures</i>                  |      |  |                              |  |                              |
| Purchase/construction of plant and equipment |      | (X)  | (X)                          | (X)  | (X)                          |
| Purchase of financial instruments            |      | (X)  | -                            | (X)  | -                            |
|  |      | (X)  | (X)                          | (X)  | (X)                          |
| <i>Loan and Interest</i>                     |      |  |                              |  |                              |
| <i>Repayments</i>                            |      |  |                              |  |                              |
| Repayment of borrowings                      |      | (X)  | -                            | (X)  | -                            |
| Interest payments                            |      | (X)  | -                            | (X)  | -                            |
|  |      | (X)  | -                            | (X)  | -                            |
| <i>Other payments</i>                        | 5    | (X)  | (X)                          | (X)  | (X)                          |
| <b>Total payments</b>                        |      | <u>(X)</u>   | <u>(X)</u>                   | <u>(X)</u>   | <u>(X)</u>                   |
| <b>Increase/(Decrease) in Cash</b>           |      | <b>X</b>   | <b>-</b>                     | <b>X</b>   | <b>-</b>                     |
| <b>Cash at beginning of year</b>             | 2    | <b>X</b>   | <b>N/A*</b>                  | <b>X</b>   | <b>N/A</b>                   |

\* N/A = Not applicable.

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|                                     | Note | <-----200X----->                                   |                              | <-----200X-1----->                                 |                              |
|-------------------------------------|------|--|------------------------------|--|------------------------------|
|                                     |      | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>third parties | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>third parties |
| (in thousands of currency<br>units) |      |  |                              |  |                              |
| <b>Increase/(Decrease) in Cash</b>  |      | <u>X</u>   | <u>N/A</u>                   | <u>X</u>   | <u>N/A</u>                   |
| <b>Cash at end of year</b>          | 2    | <u>X</u>   | <u>N/A</u>                   | <u>X</u>   | <u>N/A</u>                   |

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FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT**  
**For Government X for the Year Ended 31 December 200X**  
**Budget Approved on the Cash Basis**  
**(Classification of Payments by Functions)**

| (in thousands of currency units)             | *Actual    |              | Original<br>Budget | **Difference:<br>Final Budget and<br>Actual |
|--|------------|--------------|--------------------|---|
|  | Amounts    | Final Budget |                    |   |
| <b>CASH INFLOWS</b>                          |            |              |                    |   |
| Taxation                                     | X          | X            | X                  | X   |
| Aid agreements                               |            |              |                    |   |
| International agencies                       | X          | X            | X                  | X   |
| Other grants and aid                         | X          | X            | X                  | X   |
| Proceeds: borrowing                          | X          | X            | X                  | X   |
| Proceeds: disposal of plant and<br>equipment | X          | X            | X                  | X   |
| Trading activities                           | X          | X            | X                  | X   |
| Other receipts                               | X          | X            | X                  | X   |
| <b>Total receipts</b>                        | <b>X</b>   | <b>X</b>     | <b>X</b>           | <b>X</b>                                    |
| <b>CASH OUTFLOWS</b>                         |            |              |                    |   |
| Health                                       | (X)        | (X)          | (X)                | (X)   |
| Education                                    | (X)        | (X)          | (X)                | (X)   |
| Public order/safety                          | (X)        | (X)          | (X)                | (X)   |
| Social protection                            | (X)        | (X)          | (X)                | (X)   |
| Defense                                      | (X)        | (X)          | (X)                | (X)   |
| Housing and community amenities              | (X)        | (X)          | (X)                | (X)   |
| Recreational, cultural and religion          | (X)        | (X)          | (X)                | (X)   |
| Economic affairs                             | (X)        | (X)          | (X)                | (X)   |
| Other  | (X)        | (X)          | (X)                | (X)   |
| <b>Total payments</b>                        | <b>(X)</b> | <b>(X)</b>   | <b>(X)</b>         | <b>(X)</b>                                  |
| <b>NET CASH FLOWS</b>                        | <b>X</b>   | <b>X</b>     | <b>X</b>           | <b>X</b>                                    |

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- \* Actual amounts encompass both cash and third party settlements.
- \*\* The “Difference...” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

**ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)**

Additional financial statements may be prepared to provide details of amounts included in the consolidated statement of cash receipts and payments: for example, to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

**STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION**

| (in thousands of currency units) | <b>200X<br/>Receipts<br/>controlled<br/>by entity</b> | <b>200X-1<br/>Receipts<br/>controlled<br/>by entity</b> |
|----------------------------------|---|---|
| <b>RECEIPTS</b>                  |   |   |
| Consolidated Funds               | X   | X   |
| Special Funds                    | X   | X   |
| Trading Funds                    | X   | X   |
| Loans                            | X   | X   |
| <b>Total receipts</b>            | <b>X</b>  | <b>X</b>  |

**PROCEEDS OF BORROWINGS**

| (in thousands of currency units)               | Note | <-----200X----->                            | <-----200X-1----->                                   |
|--|------|---|--|
|  |      | Cash<br>Receipts<br>controlled<br>by entity | Resulting<br>from<br>Payments<br>by third<br>parties |
|  |      | Receipts<br>controlled<br>by entity         | Resulting<br>from<br>Payments<br>by third<br>parties |
| <b>BORROWINGS</b>                              |      |   |  |
| Domestic Commercial Institution                |      | X   | -  |
| Offshore Commercial Institution                |      | X   | -  |
| Development Banks and Similar Lending Agencies |      | X   | X  |
| <b>Total borrowings</b>                        | 3    | <b>X</b>                                    | <b>X</b>   |

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

| (in thousands of currency units)            | <-----200X----->              |                           | <-----200X-1----->            |                           |
|---|-------------------------------|---------------------------|-------------------------------|---------------------------|
|   | Payments controlled by entity | Payments by third parties | Payments controlled by entity | Payments by third parties |
| <b>PAYMENTS/EXPENDITURE –</b>               |                               |                           |                               |                           |
| <b>Operating Account</b>                    |                               |                           |                               |                           |
| Education Services                          | X                             | X                         | X                             | X                         |
| Health Services                             | X                             | X                         | X                             | X                         |
| Social Security and Welfare                 | X                             | -                         | X                             | -                         |
| Defense                                     | X                             | -                         | X                             | -                         |
| Public Order and Safety                     | X                             | X                         | X                             | X                         |
| Recreation, Culture and Religion            | X                             | X                         | X                             | X                         |
| Economic Services                           | X                             | -                         | X                             | -                         |
| Other                                       | X                             | X                         | X                             | X                         |
| <b>Total payments/expenditure</b>           | <b>X</b>                      | <b>X</b>                  | <b>X</b>                      | <b>X</b>                  |
| <b>PAYMENTS/EXPENDITURE –</b>               |                               |                           |                               |                           |
| <b>Capital Account</b>                      |                               |                           |                               |                           |
| Education Services                          | X                             | X                         | X                             | X                         |
| Health Services                             | X                             | X                         | X                             | X                         |
| Social Security and Welfare                 | X                             | -                         | X                             | -                         |
| Defense                                     | X                             | -                         | X                             | -                         |
| Public Order and Safety                     | X                             | X                         | X                             | X                         |
| Recreation, Culture and Religion            | X                             | X                         | X                             | X                         |
| Other                                       | X                             | X                         | X                             | X                         |
| <b>Total payments/expenditure</b>           | <b>X</b>                      | <b>X</b>                  | <b>X</b>                      | <b>X</b>                  |
| <b>Total Operating and Capital Accounts</b> | <b>X</b>                      | <b>X</b>                  | <b>X</b>                      | <b>X</b>                  |

## **PUBLIC SECTOR ENTITY – WHOLE-OF-GOVERNMENT**

### **Notes to the Financial Statements**

#### **1. Accounting Policies**

##### **Basis of preparation**

The financial statements have been prepared in accordance with Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

##### **Reporting entity**

The financial statements are for the national government of Country A. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- (i) central government ministries; and
- (ii) government business enterprises and trading funds that are under the control of the entity.

The consolidated financial statements include all entities controlled during the year. A list of significant controlled entities is shown in Note 7 to the financial statements.

##### **Payments by Third Parties**

The government also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions. The payments made by the third parties do not constitute cash receipts or payments by the government but do benefit the government. They are disclosed in the *Payments by third parties* column in the Consolidated Statement of Cash Receipts and Payments and other financial statements.

##### **Reporting currency**

The reporting currency is (currency of Country A).

#### **2. Cash**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments.

Cash included in the statement of cash receipts and payments comprise the following amounts:

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| (in thousands of currency units)     | 200X     | 200X-1   |
|--------------------------------------|----------|----------|
| Cash on hand and balances with banks | X        | X        |
| Short-term investments               | X        | X        |
|                                      | <u>X</u> | <u>X</u> |

Included in the amount stated above is X currency units provided by the International Agency XX that is restricted to the construction of road infrastructure.

**3. Borrowings**

Borrowings comprise cash inflows from banks, similar lending agencies and commercial institutions and amounts owing in respect of non-cash assistance provided by third parties.

**4. Other Receipts**

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

**5. Other Payments/Expenditure**

Included in other payments are dividends, distributions paid, legal settlements of lawsuits and miscellaneous payments.

**6. Undrawn Borrowing Facilities Other than Undrawn External Assistance**

*(See note 10 for undrawn external assistance)*

| (in thousands of currency units)                | 200X       | 200X-1     |
|---|------------|------------|
| <b>Movement in Undrawn Borrowing Facilities</b> |            |            |
| Undrawn borrowing facilities at 1.1.0X          | X          | X          |
| Additional loan facility                        | X          | X          |
| Total available                                 | <u>X</u>   | <u>X</u>   |
| Amount drawn                                    | (X)        | (X)        |
| Facility closure/cancellations                  | <u>(X)</u> | <u>(X)</u> |
| Undrawn borrowing facilities at 31.12.0X.       | <u>X</u>   | <u>X</u>   |

| (in thousands of currency units)    | 200X     | 200X-1   |
|-------------------------------------|----------|----------|
| <b>Undrawn Borrowing Facilities</b> |          |          |
| Commercial Financial Institutions   | X        | X        |
| Total undrawn borrowing facilities  | <u>X</u> | <u>X</u> |

**7. Significant Controlled Entities**

| <b>Entity</b> | <b>Jurisdiction</b> |
|---------------|---------------------|
| Entity A      | X                   |
| Entity B      | X                   |
| Entity C      | X                   |
| Entity D      | X                   |

**8. Authorization Date**

The financial statement was authorized for publication on XX *Month* 200X+1 by Mr YY, the Treasurer of Country A.

**9. Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 January 200X to 31 December 200X) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences.

**Alternative Note 9 when budget and financial statements are prepared on a different basis**

**9. Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from 1 January 200X to 31 December 200X and includes all entities within the general government sector. The general government sector includes all government departments – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the

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Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the cash basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements which include all controlled entities, including government business enterprises for the fiscal period from 1 January 20XX to 31 December 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended 31 December 20XX is presented below.

|   | <b>Total inflows</b> | <b>Total outflows</b> |
|---|----------------------|-----------------------|
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | <b>X</b>             | <b>X</b>              |
| Basis Differences   | X                    | X                     |
| Timing Differences  | -                    | -                     |
| Entity Differences  | X                    | X                     |
| Total Cash receipts   | <b>X</b>             |                       |
| Total Cash Payments   |                      | <b>X</b>              |

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

financial statements consolidate all entities controlled by the government. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the modified cash basis.

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

**10. External Assistance**

**Payments by Third Parties**

All payments made by third parties are made by third parties which are not part of the economic entity.

**External Assistance**

External assistance was received in the form of loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. The following amounts are presented in the reporting currency of the entity.

|                                  | <u>200X</u>  | <u>200X-1</u> |
|----------------------------------|--------------|---------------|
|                                  | <u>Total</u> | <u>Total</u>  |
| <b>Loan Funds</b>                |              |               |
| Multilateral Agencies            | X            | X             |
| Bilateral Agencies               | X            | X             |
| Total                            | X            | X             |
| <b>Grant Funds</b>               |              |               |
| Multilateral Agencies            | X            | X             |
| Bilateral Agencies               | X            | X             |
| Total                            | X            | X             |
| <b>Total External Assistance</b> | <b>X</b>     | <b>X</b>      |

**Non Compliance with significant terms and conditions and rescheduled and cancelled debt**

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of external assistance loans.

External assistance grants of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified

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development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.

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**Undrawn External Assistance**

Undrawn external assistance loans and grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development, where conditions have been satisfied, and their ongoing satisfaction is highly likely, and the project is anticipated to continue to completion.

|                                       | <b>Loans<br/>200X</b> | <b>Grants<br/>200X</b> | <b>Loans<br/>200X-1</b> | <b>Grants<br/>200X-1</b> |
|---------------------------------------|-----------------------|------------------------|-------------------------|--------------------------|
| Closing balance in reporting currency | X                     | X                      | X                       | X                        |

The significant terms and conditions that determine or affect access to the amount of undrawn assistance relate to the achievement of the following specified construction targets for development of medical and education infrastructure: (Entity to identify significant construction targets).

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**APPENDIX 1b – GOVERNMENT ENTITY AB**

**(This Entity controls its own bank account and also benefits from payments made by third parties.)**

**CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS  
FOR YEAR ENDED 31 DECEMBER 200X**

|                                       | Note | <-----200X----->                                   |  |  | <-----200X-1----->                                 |  |  |
|---------------------------------------|------|--|--|--|--|--|--|
|                                       |      | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>other<br>government<br>entities | Payments by<br>external<br>third parties | Receipts/<br>(Payments)<br>controlled by<br>entity | Payments by<br>other<br>government<br>entities | Payments by<br>external<br>third parties |
| (in thousands of currency units)      |      |  |  |  |  |  |  |
| <b>RECEIPTS</b>                       |      |  |  |  |  |  |  |
| Authorized allocations/Appropriations |      | X  | X  | -  | X  | X  | -  |
| Other receipts                        |      | X  | -  | -  | X  | -  | -  |
| Grants/Assistance                     |      | -  | -  | X  | -  | -  | X  |
| <b>Total receipts</b>                 |      | <b>X</b>   | <b>X</b>                                       | <b>X</b>                                 | <b>X</b>   | <b>X</b>                                       | <b>X</b>                                 |
| <b>PAYMENTS</b>                       |      |  |  |  |  |  |  |
| Wages, salaries and employee benefits |      | (X)  | -  | -  | (X)  | -  | -  |
| Rent                                  |      | (X)  | (X)  | -  | (X)  | (X)  | -  |
| Capital Expenditure                   |      | (X)  | (X)  | (X)                                      | (X)  | (X)  | (X)                                      |
| Transfers                             | 3    | (X)  | (X)  | (X)                                      | (X)  | (X)  | (X)                                      |
| <b>Total payments</b>                 |      | <b>(X)</b>   | <b>(X)</b>                                     | <b>(X)</b>                               | <b>(X)</b>   | <b>(X)</b>                                     | <b>(X)</b>                               |
| <b>Increase/(Decrease) in Cash</b>    |      | <b>X</b>   | <b>X</b>                                       | <b>(X)</b>                               | <b>X</b>   | <b>(X)</b>                                     | <b>X</b>                                 |
| <b>Cash at beginning of year</b>      | 2    | <b>X</b>   | <b>N/A*</b>                                    | <b>N/A</b>                               | <b>X</b>   | <b>N/A</b>                                     | <b>N/A</b>                               |
| <b>Increase/(Decrease) in Cash</b>    |      | <b>X</b>   | <b>N/A</b>                                     | <b>N/A</b>                               | <b>X</b>   | <b>N/A</b>                                     | <b>N/A</b>                               |
| <b>Cash at end of year</b>            | 2    | <b>X</b>   | <b>N/A</b>                                     | <b>N/A</b>                               | <b>X</b>   | <b>N/A</b>                                     | <b>N/A</b>                               |

\* N/A = Not Applicable.

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**ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)**

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions. An example of a statement by function is included below.

**STATEMENT OF PAYMENTS BY FUNCTION**

|                                   | Note <-----200X----->               |  |   | <-----200X-1----->                  |  |   |
|-----------------------------------|-------------------------------------|--|---|-------------------------------------|--|---|
|                                   | Payments<br>controlled<br>by entity | Payments<br>by other<br>government<br>entities | Payments<br>by external<br>third<br>parties | Payments<br>controlled<br>by entity | Payments<br>by other<br>government<br>entities | Payments<br>by external<br>third<br>parties |
| (in thousands of currency units)  |                                     |  |   |                                     |  |   |
| <b>PAYMENTS/EXPENDITURE</b>       |                                     |  |   |                                     |  |   |
| Program I                         | (X)                                 | (X)  | (X)   | (X)                                 | (X)  | (X)   |
| Program II                        | (X)                                 | (X)  | (X)   | (X)                                 | (X)  | (X)   |
| Program III                       | (X)                                 | (X)  | (X)   | (X)                                 | (X)  | (X)   |
| Program IV                        | (X)                                 | (X)  | (X)   | (X)                                 | (X)  | (X)   |
| Other payments/expenditure        | (X)                                 | (X)  | (X)   | (X)                                 | (X)  | (X)   |
| <b>Total payments/expenditure</b> | <b>(X)</b>                          | <b>(X)</b>                                     | <b>(X)</b>                                  | <b>(X)</b>                          | <b>(X)</b>                                     | <b>(X)</b>                                  |

## **GOVERNMENT ENTITY AB**

### **Notes to the Financial Statements**

#### **1. Accounting Policies**

##### **Basis of preparation**

The financial statements have been prepared in accordance with Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

##### **Reporting entity**

The financial statements are for a public sector entity (Government Entity AB). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Entity AB and its controlled entities. Government Entity AB is controlled by the national government of Country A.

Government Entity AB's principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account. Appropriations and other cash receipts are deposited into its bank accounts.

##### **Payments by other government entities**

The Entity benefits from payments made by its controlling entity (Government A) and other government entities on its behalf.

##### **Payments by external third parties**

The Entity also benefits from payments made by external third parties (entities external to the economic entity) for goods and services. These payments do not constitute cash receipts or payments of the Entity, but do benefit the Entity. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and in other financial statements.

##### **Reporting currency**

The reporting currency is (currency of Country A).

#### **2. Cash**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investments in short-term money market instruments.

Amounts appropriated to the Entity are deposited in the Entity's bank account and are controlled by the entity. All borrowings are undertaken by a central finance entity.

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Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are transferred to consolidated revenue at year end.

Cash included in the statement of cash receipts and payments comprise the following amounts:

| (in thousands of currency units)     | 200X     | 200X-1   |
|--------------------------------------|----------|----------|
| Cash on hand and balances with banks | X        | X        |
| Short-term investments               | <u>X</u> | <u>X</u> |
|                                      | <u>X</u> | <u>X</u> |

**3. Transfers**

Amounts are transferred to eligible recipients in accordance with operating mandate and authority of the entity.

**4. Significant Controlled Entities**

| Entity   | Jurisdiction |
|----------|--------------|
| Entity A | X            |
| Entity B | X            |

**5. Authorization Date**

The financial statements were authorized for issue on XX Month 200X+1 by Mr YY, Minister of XXXXX for Entity AB.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

**APPENDIX 1c – GOVERNMENT DEPARTMENT AC**  
 (The Government operates a centralized single account system– the Entity does not control amounts appropriated for its use.)

STATEMENT OF CASH RECEIPTS AND PAYMENTS  
 FOR YEAR ENDED 31 DECEMBER 200X

|                                       | Note | <-----200X----->                         |                                    | <-----200X-1----->                       |                                    |
|---------------------------------------|------|--|------------------------------------|--|------------------------------------|
|                                       |      | Treasury Account/ Single Control Account | Payments by external third parties | Treasury Account/ Single Control Account | Payments by external third parties |
| (in thousands of currency units)      |      |  |                                    |  |                                    |
| <b>RECEIPTS</b>                       |      |  |                                    |  |                                    |
| Allocations/ Appropriations           | 2    | X  | -                                  | X  | -                                  |
| Other receipts                        |      | X  | -                                  | X  | -                                  |
| Assistance                            |      | -  | X                                  | -  | X                                  |
| <b>Total receipts</b>                 |      | <b>X</b>                                 | <b>X</b>                           | <b>X</b>                                 | <b>X</b>                           |
| <b>PAYMENTS</b>                       |      |  |                                    |  |                                    |
| Wages, salaries and employee benefits |      | (X)                                      | -                                  | (X)                                      | -                                  |
| Rent                                  |      | (X)                                      | -                                  | (X)                                      | -                                  |
| Capital Expenditure                   |      | (X)                                      | (X)                                | (X)                                      | (X)                                |
| Transfers                             | 3    | (X)                                      | (X)                                | (X)                                      | (X)                                |
| <b>Total payments</b>                 |      | <b>(X)</b>                               | <b>(X)</b>                         | <b>(X)</b>                               | <b>(X)</b>                         |

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

**ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)**

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

|                                     | Note <-----200X----->                                |  | <-----200X-1----->                                   |   |
|-------------------------------------|--|--|--|---|
|                                     | Treasury<br>Account/<br>Single<br>Control<br>Account | Payments<br>by<br>external<br>third<br>parties | Treasury<br>Account/<br>Single<br>Control<br>Account | Payments<br>by external<br>third<br>parties |
| (in thousands of currency<br>units) |  |  |  |   |
| <b>PAYMENTS</b>                     |  |  |  |   |
| Program I                           | X  | X  | X  | X   |
| Program II                          | X  | X  | X  | X   |
| Program III                         | X  | X  | X  | X   |
| Program IV                          | X  | X  | X  | X   |
| Other payments                      | X  | X  | X  | X   |
| <b>Total payments</b>               | <b>X</b>   | <b>X</b>                                       | <b>X</b>   | <b>X</b>                                    |

## GOVERNMENT DEPARTMENT AC

### Notes to the Financial Statements

#### **1. Accounting Policies**

##### **Basis of preparation**

The financial statements have been prepared in accordance with Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

##### **Reporting entity**

The financial statements are for a public sector entity: Government Department AC. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Department AC. Government Department AC is controlled by the national government of Country A.

Government Department AC's principal activity is to provide services to constituents.

Government Department AC does not operate its own bank account. The Government operates a centralized treasury function which administers cash expenditures incurred by all departments during the financial year. Payments made on this account in respect of the Department are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

##### **Payments by external third parties**

Government Department AC benefits from goods and services purchased on its behalf as a result of cash payments made by third parties external to the Government during the reporting period. The payments made by the third parties do not constitute cash receipts or payments of the Department but do benefit the Department. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and other financial statements.

##### **Reporting currency**

The reporting currency is (currency of Country A).

#### **2. Appropriations**

Amounts appropriated to Government Department AC are managed through a central account administered by the Office of the Treasury. These amounts are not controlled by Department AC but are deployed on the Department's behalf by the central account administrator on presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity. The amount reported as allocations/appropriations in the statement of cash receipts and payments is the amount

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the Office of the Treasury has expended for the benefit of Department AC (the amount “drawn down”).

**3. Transfers**

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of Department AC.

**4. Authorization Date**

The financial statements were authorized on XX *Month* 200X+1 by Mr YY, Minister of XXXXX for Government Department AC.

**PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS  
OF ACCOUNTING - ENCOURAGED ADDITIONAL  
DISCLOSURES**

*This part of the Standard is not mandatory. It sets out encouraged additional disclosures for reporting under the cash basis. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.*

## FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

### 2.1 Encouraged Additional Disclosures

#### Staff Comment - Housekeeping

Staff proposes that definitions and encouragements be updated as appropriate to reflect equivalent definitions and text in accrual IPSASs and as appropriate the Conceptual Framework.

#### Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

*Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.*

*Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.*

*Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.*

*Closing rate is the spot exchange rate at the reporting date.*

*Distributions to owners are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.*

*Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.*

*Extraordinary items are (for the purposes of this Standard) cash flows that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.*

**Comment [PS1]:** Update for Framework if included in accrual IPSASs.

**Comment [PS2]:** Remove because no longer defined in accrual IPSASs.

~~A financial asset is any asset that is:~~

~~(a) — cash;~~

~~(b) — a contractual right to receive cash or another financial asset from another entity;~~

~~(c) — a contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or~~

~~(d) — an equity instrument of another entity.~~

~~Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.~~

~~Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.~~

~~Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.~~

~~Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.~~

### **Future Economic Benefits or Service Potential**

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

### **Going Concern**

2.1.3 When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.

**Comment [PS3]:** Remove because definition out of date and term not used in Part 2.

**Comment [PS4]:** Update for Framework if similar changes to be made to accrual IPSASs

**Comment [PS5]:** Delete because no longer included in accrual IPSASs

**Comment [PS6]:** Update for Framework if change also proposed for IPSASs.

**Comment [PS7]:** Review re update for Framework

**Comment [PS8]:** Some different wording in IPSAS 1 but substance the same as far as it can apply in a cash basis or near cash basis model. Major changes differences are current IPSAS 1 is clearly placed in accrual context with references to statement of fin position and performance.

Staff do not propose change as part of housekeeping

- 2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:
- (a) will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and
  - (b) may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.
- 2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:
- (a) in assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and
  - (b) for an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

### **Extraordinary Items**

~~2.1.6 An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.~~

~~2.1.7 Extraordinary items are characterized by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.~~

~~Distinct from Ordinary Activities~~

~~2.1.8 Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction~~

**Comment [PS9]:** Delete because no longer required in accrual IPSASs

~~in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government, because of the differences between their respective ordinary activities. In the context of whole of government reporting, extraordinary items will be extremely rare.~~

#### **Not Expected to Recur in the Foreseeable Future**

~~2.1.9—The event or transaction will be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the specific item is foreseen and therefore not extraordinary.~~

#### **Outside the Control or Influence of the Entity**

~~2.1.10—The event or transaction will be outside the control or influence of the entity. A transaction or event is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event.~~

#### **Identifying Extraordinary Items**

~~2.1.11—Whether or not an item is extraordinary will be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment will be exercised in each case.~~

~~2.1.12—Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:~~

- ~~(a)—short term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and~~
- ~~(b)—the cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services~~

~~or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.~~

~~2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for either an individual public sector entity or the whole of government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole of government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole of government entity. It is only in circumstances where the restructuring is imposed by another level of government or by an external regulator or other external authority that it could be classified as outside the control or influence of the whole of government entity.~~

~~2.1.14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of cash receipts and payments or other financial statements that might be prepared or in the notes to those financial statements. An entity may also decide to disclose only the total amount of extraordinary items on the face of the statement of cash receipts and payments and the details in the notes.~~

## **Administered Transactions**

2.1.15 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

- 2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.18 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:
- (a) may be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and
  - (b) are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

#### **Revenue Collection**

- 2.1.18 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.
- 2.1.19 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

- 2.1.20 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

#### **“Pass-through” Cash Flows**

- 2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity’s own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed “pass-through” cash flows. In these cases, the entity will:

- (a) control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity’s bank account prior to transfer to third parties;
- (b) usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and
- (c) have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity’s statement of cash receipts and payments in accordance with paragraph 1.3.4(a)(i) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

#### **Transfer Payments**

- 2.1.22 Consistent with a government’s objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank account

controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

### Disclosure of Major Classes of Cash Flows

2.1.23 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

- (a) *an analysis of total cash payments and payments by third parties using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*
- (b) *proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.24 The sub-classifications encouraged in paragraph 2.1.23(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraphs 1.3.12 and 1.3.24 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.23(a) above is encouraged either as a separate statement or by way of note.

2.1.25 Cash payment items and payments by third parties may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

2.1.26 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

|                      | Cash<br>payments | Payments by<br>third parties |
|----------------------|------------------|------------------------------|
| Wages and salaries   | (X)              | (X)                          |
| Transport costs      | (X)              | (X)                          |
| Capital acquisitions | (X)              | (X)                          |
| Borrowing costs      | (X)              | (X)                          |

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|                |            |            |
|----------------|------------|------------|
| Other          | (X)        | (X)        |
| Total payments | <u>(X)</u> | <u>(X)</u> |

2.1.27 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

|                      | Cash payments | Payments by third parties |
|----------------------|---------------|---------------------------|
| Health services      | (X)           | (X)                       |
| Education services   | (X)           | (X)                       |
| Capital acquisitions | (X)           | (X)                       |
| Borrowing costs      | (X)           | (X)                       |
| Other                | (X)           | (X)                       |
| Total payments       | <u>(X)</u>    | <u>(X)</u>                |

2.1.28 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.29 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:

- (a) receipts from taxation (these may be further sub-classified into types of taxes);
- (b) receipts from fees, fines, penalties and licenses;
- (c) receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

- (d) the purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;
- (e) receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);
- (f) receipts from interest and dividends; and
- (g) receipts from gifts and donations.

### **Related Party Disclosures**

- 2.1.31 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20 Related Party Disclosures.*
- 2.1.32 *IPSAS 20 Related Party Disclosures in the accrual based series of IPSASs defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.*

**Comment [PS10]:** Update to reflect latest wording of accrual IPSAS if necessary.

### **Disclosure of Assets, Liabilities and Comparison with Budgets**

- 2.1.33 *An entity is encouraged to disclose in the notes to the financial statements:*
  - (a) *information about the assets and liabilities of the entity; and*
  - (b) *if the entity does not make publicly available its approved budget, a comparison with budgets*
- 2.1.34 *Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.*
- 2.1.35 *Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying:*
  - (a) *assets as receivables, investments or property plant and equipment; and*

**Comment [PS11]:** Acknowledge RPG service performance information.

- (b) liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual basis IPSASs including IPSAS 13 *Leases*, IPSAS 17 *Property, Plant and Equipment* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* can provide useful guidance to entities disclosing additional information about assets and liabilities.

**Comment [PS12]:** Add references to relevant IPSASs issued since Cash Basis IPSAS was issued.

### Comparison with Budgets

2.1.36 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.9.1 to 1.9.48 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

- (a) the preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
- (b) disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.37 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

- 2.1.38 *Entities which adopt multi-period budgets are encouraged to provide additional note disclosures about the relationship between budget and actual amounts during the budget period.*
- 2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.
- 2.1.40 As noted in paragraph 1.9.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

## Consolidated Financial Statements

### Staff Comment – Consolidation

#### Repositioning of Part 1 requirements as Part 2 encouragements

The requirement in paragraph 1.6.5 to issue consolidated financial statements which consolidate all controlled entities, and the related exclusions and explanation will be rephrased as encouragements and included in this section.

The text of this section will also be updated as necessary to align with relevant guidance and explanation in IPSAS 35.

- 2.1.41 *An entity is encouraged to disclose in the notes to the financial statements:*
- (a) *the proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*
  - (b) *where applicable:*
    - (i) *the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and*
    - (ii) *the name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*

(c) *in the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

2.1.42 *A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.*

2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraphs 1.6.7 and 1.6.8 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

#### **Acquisitions and Disposals of Controlled Entities and Other Operating Units**

2.1.44 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.45 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

- (a) *the total purchase or disposal consideration (including cash or other assets);*
- (b) *the portion of the purchase or disposal consideration discharged by means of cash; and*
- (c) *the amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

- 2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.
- 2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category. Consistent with the requirement of paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognized and measured explained.

### Joint Ventures

- 2.1.49 *An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date*
- 2.1.50 Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint ventures. Entities which report on a cash basis will generally report:
- (a) as cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and
  - (b) as cash receipts, the cash received from the joint venture.

Disclosures about joint ventures may include a listing and description of interests in significant joint ventures. International Public Sector Accounting Standard IPSAS 8 *Financial Reporting of Interests in Joint Ventures* in the accrual based series of IPSASs provides guidance on the different forms and structures that joint ventures may take and potential additional disclosures that might be made.

### Financial Reporting in Hyperinflationary Economies

- 2.1.51 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.
- 2.1.52 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial

**Comment [PS13]:** Update to reflect latest wording of accrual IPSAS as necessary.

**Comment [PS14]:** Update to reflect latest wording of accrual IPSAS 4 and IPSAS 10 as necessary.

statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

- (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) interest rates, wages and prices are linked to a price index; and
- (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

#### **The Restatement of Financial Statements**

*2.1.53 An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

- (a) *restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*
- (b) *restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*
- (c) *use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

*2.1.54 The entity is encouraged to make the following disclosures:*

- (a) *the fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*

(b) *the identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

- 2.1.55 Prices change over time as the result of various political, economic and social forces. Specific forces such as changes in supply and demand, and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.
- 2.1.56 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.53 and 2.1.54 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.
- 2.1.57 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.
- 2.1.58 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

### **Comparative Information**

- 2.1.59 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measurement unit current at the end of the reporting period.

### **Consolidated Financial Statements**

- 2.1.60 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the

financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.

- 2.1.61 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

#### **Selection and Use of the General Price Index**

- 2.1.62 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.
- 2.1.63 The disclosures encouraged by this Standard are intended to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

#### **Assistance Received From Non-Governmental Organizations (NGOs)**

- 2.1.64 *Where practicable, an entity is encouraged to apply to assistance received from non-governmental organizations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*
- 2.1.65 Reporting entities are not required to make the disclosures identified in paragraphs 1.10.1 to 1.10.27 in respect of assistance received from non-governmental organizations (NGOs). This is because the costs of collecting and aggregating the information necessary to comply with those requirements may be greater than its benefits. However, making the disclosures about assistance received from NGOs which are identified in paragraphs 1.10.1 to 1.10.27, together with the disclosures encouraged in paragraphs 2.1.66 to 2.1.93 below, can provide additional input to assessments of the extent to which the reporting entity is dependent on assistance from these organizations to support its activities. Accordingly, reporting entities are encouraged to apply the disclosures identified in this Standard to assistance received from NGOs, where it is practicable to do so.

**Comment [PS15]:** Update cross referencing to Part 1 and part 2 as necessary

## Recipients of External Assistance

### Staff Comment - External Assistance

The requirements for disclosure of external assistance in the form of third party payments in paragraph 1.10.9, and classes of provider and whether as loan or grant, and related explanation will be rephrased as encouragements and included in this section.

Similarly paragraphs from Part 1 dealing with the following matters will be rephrased as appropriate and included as encouragements in this section: *Undrawn External Assistance* (paragraphs 1.10.18 to 1.10.20) and *Disclosure of Debt Rescheduled or Cancelled* (paragraphs 1.10.23 to 1.10.25).

- 2.1.66 *An entity is encouraged to disclose by significant class in notes to the financial statements:*
- (a) *the purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*
  - (b) *the purposes for which external assistance payments were made during the reporting period.*
- 2.1.67 An entity may receive external assistance for many purposes including assistance to support its:
- (a) economic development or welfare objectives, often termed development assistance;
  - (b) emergency relief objectives, often termed emergency assistance;
  - (c) balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;
  - (d) military and/or defense objectives, often termed military assistance; and
  - (e) trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.
- 2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of the significant classes of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.

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- 2.1.69 Disclosure by significant class of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.
- 2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*
- 2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.
- 2.1.72 *In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, an entity is encouraged to disclose in notes to the financial statements:*
- (a) each provider of loan assistance and grant assistance and the amount provided by each;*
  - (b) the purposes for which the undrawn loan assistance and undrawn grant assistance may be used;*
  - (c) the currency in which the undrawn assistance is held or will be made available; and*
  - (d) changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*
- 2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.
- 2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilized

during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.

- 2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.
- 2.1.76 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.*
- 2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.
- 2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:
- (a) undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or
  - (b) achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives, or establishing a financial sector asset recovery or management agency.
- 2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.
- 2.1.80 *An entity is encouraged to disclose in notes to the financial statements:*
- (a) *the outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*
  - (b) *the amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have*

*been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.*

- 2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.
- 2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.
- 2.1.83 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*
- 2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is corrected. They may also include an increase in the interest rate charged on loan funds.
- 2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.
- 2.1.86 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external*

*assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.*

- 2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.
- 2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.
- 2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.
- 2.1.90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services **in kind**.*
- 2.1.91 Paragraph 1.10.7 explains that external assistance agreements may provide for the recipient entity to receive cash or request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient. This paragraph also acknowledges that, in addition to external assistance in the form of cash or third party payments, an entity may also receive external assistance in the form of goods or services in-kind. Significant resources may be received under external assistance agreements in the form of goods or services **provided directly to the recipient by an aid or donor agency**. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.

**Comment [PS16]:** Amendments here intended to clarify the distinction between goods and services in kind and third party payments.

- 2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.
- 2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value – that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

## 2.2 Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

### Presentation of the Statement of Cash Receipts and Payments

- 2.2.1 *An entity which intends to migrate to the accrual basis of accounting is 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.*
- 2.2.2 IPSAS 2 *Cash Flow Statements* provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a statement of cash flows which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

**Comment [PS17]:** Update to reflect latest wording of accrual IPSAS 2 as necessary.

## Scope of Consolidated Statements – Exclusions from the Economic Entity

- 2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual IPSASs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a national government intends to transfer its interest in a controlled entity to a local government.
- 2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:
- (a) the cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and
  - (b) the potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.
- 2.2.5 For this exemption from consolidation to apply under the accrual IPSASs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.
- 2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis IPSASs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

**Comment [PS18]:** Update to reflect repositioning of Part 1 requirements as encouragements. Also update for latest wording of accrual IPSAS 35 as necessary.

## Appendix 2 – Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

### Staff Comment: Illustrations and other Appendices

The illustrations and other appendices will be updated to reflect the IPSASB decisions regarding amendments to the text.

*This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.*

#### Extract from notes to financial statements of Entity ABC

##### *Administered Transactions (paragraph 2.1.15)*

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in the consolidated revenue fund and/or trust account (name of account), as appropriate. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorization by the relevant government body.

| (in thousands of currency units)                | Nature of Transaction             | 200X          | 200X-1        |
|---|-----------------------------------|---------------|---------------|
| Cash collected on behalf of The Executive/Crown | Collection of taxation            | X             | X             |
| Agency EF                                       | Collection of utility service fee | <u>X</u><br>X | <u>X</u><br>X |
| Cash transferred to respective entities         |                                   | (X)           | (X)           |
|   |                                   | -             | -             |
|   |                                   | -             | -             |

##### *Related Party Transactions (paragraph 2.1.31)*

The key management personnel (as defined by International Public Sector Accounting Standard IPSAS 20 *Related Party Disclosures*) of Entity ABC are the Minister, the members of the governing body and the members of the senior management group. The governing body consists of members appointed by Government A. The chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Entity ABC. The aggregate remuneration of members

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of the governing body and the number of members determined on a full time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration                      AX million.  
 Number of persons                              AY persons.

The senior management group consists of the Entity’s chief executive officer, the chief financial officer, and the heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration                      AP million.  
 Number of persons                              AQ persons.

**Extract from notes to financial statements of Government X**

***Assets and Liabilities (paragraph 2.1.33(a))***

*Property, plant and equipment*

The Government commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost or valuation. The valuations were performed by an independent professional valuer. The valuation bases used for each class of assets are as follows:

Plant and Equipment                      Cost  
 Land    Current Value  
 Buildings                                        Cost or Market Value

| (in thousands of currency units) | <b>200X</b> | <b>200X-1</b> |
|----------------------------------|-------------|---------------|
| Plant and equipment              | X           | X             |
| Land and buildings               |             |               |
| Property within city limits      | X           | X             |
| Buildings at cost                | X           | X             |
| Buildings at valuation           | X           | X             |
|                                  | <u>X</u>    | <u>X</u>      |
|                                  |             |               |

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*(Extract from notes to financial statements of Government X: Assets and Liabilities  
 (paragraph 2.1.33(a) continued)*

*Borrowings*

The borrowings of the Government are listed below:

|   | <b>200X</b> | <b>200X-1</b> |
|---|-------------|---------------|
| <i>(in thousands of currency units)</i> |             |               |
| Balance at beginning of year            | X           | X             |
| <b>PROCEEDS</b>                         |             |               |
| Domestic Commercial Institution         | X           | X             |
| Offshore Commercial Institution         | X           | X             |
| Development Banks and Similar           |             |               |
| Lending Agencies                        | X           | X             |
| <b>Total borrowings</b>                 | <u>X</u>    | <u>X</u>      |
| <b>REPAYMENTS</b>                       |             |               |
| Domestic Commercial Institution         | (X)         | (X)           |
| Offshore Commercial Institution         | (X)         | (X)           |
| Development Banks and Similar           |             |               |
| Lending Agencies                        | (X)         | (X)           |
| <b>Total repayments</b>                 | <u>(X)</u>  | <u>(X)</u>    |
| Balance at end of year                  | <u>X</u>    | <u>X</u>      |

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*(Extract from notes to financial statements of Government X continued)*

**Comparison with budget when the entity does not make its budget publicly available (paragraph 2.1.33 (b))**

| (in thousands of currency units)              | Actual     | Budgeted   | Variance   |
|---|------------|------------|------------|
| <b>RECEIPTS</b>                               |            |            |            |
| <i><b>Taxation</b></i>                        |            |            |            |
| Income tax                                    | X          | X          | X          |
| Value-added tax                               | X          | X          | (X)        |
| Property tax                                  | X          | X          | X          |
| Other taxes                                   | <u>X</u>   | <u>X</u>   | <u>(X)</u> |
|   | X          | X          | X          |
| <i><b>Aid Agreements</b></i>                  |            |            |            |
| International agencies                        | X          | X          | -          |
| Other Grants and Aid                          | <u>X</u>   | <u>X</u>   | =          |
|   | X          | X          | -          |
| <i><b>Borrowings</b></i>                      |            |            |            |
| Proceeds from borrowings                      | X          | X          | (X)        |
| <i><b>Capital Receipts</b></i>                |            |            |            |
| Proceeds from disposal of plant and equipment | X          | X          | X          |
| <i><b>Trading Activities</b></i>              |            |            |            |
| Receipts from trading activities              | X          | X          | X          |
| <i><b>Other receipts</b></i>                  | <u>X</u>   | <u>X</u>   | <u>X</u>   |
| <b>Total receipts</b>                         | <u>X</u>   | <u>X</u>   | <u>X</u>   |
| <b>PAYMENTS</b>                               |            |            |            |
| <i><b>Operations</b></i>                      |            |            |            |
| Wages, salaries and employee benefits         | (X)        | (X)        | (X)        |
| Supplies and consumables                      | <u>(X)</u> | <u>(X)</u> | <u>X</u>   |
|   | (X)        | (X)        | (X)        |
| <i><b>Transfers</b></i>                       |            |            |            |
| Grants  | (X)        | (X)        | -          |
| Other transfers                               | <u>(X)</u> | <u>(X)</u> | =          |
|   | (X)        | (X)        | -          |
| <i><b>Capital Expenditures</b></i>            |            |            |            |
| Purchase/construction of plant and equipment  | (X)        | (X)        | (X)        |

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| (in thousands of currency units)    | Actual   | Budgeted | Variance |
|-------------------------------------|----------|----------|----------|
| Purchase of financial instruments   | (X)      | (X)      | =        |
|                                     | (X)      | (X)      | (X)      |
| <b>Loan and Interest Repayments</b> |          |          |          |
| Repayment of borrowings             | (X)      | (X)      | -        |
| Interest payments                   | (X)      | (X)      | =        |
|                                     | (X)      | (X)      | -        |
| <b>Other payments</b>               | (X)      | (X)      | X        |
| <b>Total payments</b>               | (X)      | (X)      | (X)      |
| <b>NET RECEIPTS/(PAYMENTS)</b>      | <b>X</b> | <b>X</b> | <b>X</b> |

**Extract from notes to financial statements of Entity XYZ**

***Controlled Entities (paragraphs 2.1.41, 2.1.44, and 2.1.45)***

Entity XYZ has the power to govern the financial and operating policies so as to benefit from the activities of other entities. These are controlled entities. All controlled entities are included in the consolidated financial statements. (Paragraph 1.6.20(a) in Part 1 of this Standard requires that a list of significant controlled entities be disclosed.)

Control of government entities arises by way of statute or other enabling legislation. Control of government business enterprises arises by way of statute and in the case of Enterprise C and D, by way of ownership interest. Entity XYZ retains control of Enterprise E through legislative authority although the majority of the equity of Enterprise E has been sold to private investors.

| Enterprise   | Ownership Interest (%) | Voting Power (%) |
|--------------|------------------------|------------------|
| Enterprise E | XX                     | XX               |

***Acquisitions of Controlled Entities and Operating Units***

| Names of Enterprises acquired | Proportion of shares acquired % | Purchase consideration (in thousands of currency units) | Cash portion of purchase consideration (in thousands of currency units) | Cash balances acquired (in thousands of currency units) |
|-------------------------------|---------------------------------|---|---|---|
| Enterprise C                  | XX                              | X   | X   | X   |
| Enterprise D                  | XX                              | X   | X   | X   |
|                               |                                 | X   | X   | X   |
|                               |                                 |   |   |   |

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*(Extract from notes to financial statements of Entity XYZ continued)*

*Disposals of Controlled Entities and Other Operating Units*

| Name of Enterprise disposed of | Proportion of shares disposed of % | Disposal consideration (in thousands of currency units) | Cash portion of disposal consideration (in thousands of currency units) | Cash balance disposed of (in thousands of currency units) |
|--------------------------------|------------------------------------|---|---|---|
| Enterprise F                   | XX                                 | X   | X   | X   |

*Significant Joint Ventures (paragraph 2.1.49)*

| Name of Joint Venture      | Principal Activity            | Output Interest |          |
|----------------------------|-------------------------------|-----------------|----------|
|                            |                               | 200X %          | 200X-1 % |
| Regional Water Board       | Water provision               | XX              | XX       |
| Regional Electricity Board | Provision of utility services | XX              | XX       |

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**Extract from notes to financial statements of Government B:**

***Biennial Budget On Cash Basis - For The Year Ended 31 December 200X (paragraph 2.1.38)***

| (in thousands of currency units)          | <b>Original Biennial Budget Year</b> | <b>Target Budget for 1<sup>st</sup> Year</b> | <b>Revised Budget in 1<sup>st</sup> Year</b> | <b>1<sup>st</sup> Year Actual on Comparable Basis</b> | <b>Balance Available for 2<sup>nd</sup> Year</b> | <b>Target Budget for 2<sup>nd</sup> Year</b> | <b>Revised Budget in 2<sup>nd</sup> Year</b> | <b>2<sup>nd</sup> Year Actual on Comparable Basis</b> | <i>*Difference: Budget and Actual for Budget Period</i> |
|---|--------------------------------------|--|--|---|--|--|--|---|---|
| <b>CASH INFLOWS</b>                       |                                      |  |  |   |  |  |  |   |   |
| Taxation                                  | X                                    | X  | X  | X   | X  | X  | X  | X   | X   |
| Aid agreements                            | X                                    | X  | X  | X   | X  | X  | X  | X   | X   |
| Proceeds: borrowing                       | X                                    | X  | X  | X   | X  | X  | X  | X   | X   |
| Proceeds: disposal of plant and equipment | X                                    | X  | X  | X   | X  | X  | X  | X   | X   |
| Other receipts                            | X                                    | X  | X  | X   | X  | X  | X  | X   | X   |
| <b>Total inflows</b>                      | <b>X</b>                             | <b>X</b>                                     | <b>X</b>                                     | <b>X</b>  | <b>X</b>   | <b>X</b>                                     | <b>X</b>                                     | <b>X</b>  | <b>X</b>  |
| <b>CASH OUTFLOWS</b>                      |                                      |  |  |   |  |  |  |   |   |
| Health                                    | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Education                                 | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Public order and safety                   | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |

\* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

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| (in thousands of currency units) | <b>Original Biennial Budget Year</b> | <b>Target Budget for 1<sup>st</sup> Year</b> | <b>Revised Budget in 1<sup>st</sup> Year</b> | <b>1<sup>st</sup> Year Actual on Comparable Basis</b> | <b>Balance Available for 2<sup>nd</sup> Year</b> | <b>Target Budget for 2<sup>nd</sup> Year</b> | <b>Revised Budget in 2<sup>nd</sup> Year</b> | <b>2<sup>nd</sup> Year Actual on Comparable Basis</b> | <i>*Difference: Budget and Actual for Budget Period</i> |
|----------------------------------|--------------------------------------|--|--|---|--|--|--|---|---|
| Social protection                | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Defense                          | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Housing, community amenities     | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Recreational, cultural, religion | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Economic affairs                 | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| Other                            | (X)                                  | (X)  | (X)  | (X)   | (X)  | (X)  | (X)  | (X)   | (X)   |
| <b>Total outflows</b>            | <b>(X)</b>                           | <b>(X)</b>                                   | <b>(X)</b>                                   | <b>(X)</b>  | <b>(X)</b>                                       | <b>(X)</b>                                   | <b>(X)</b>                                   | <b>(X)</b>  | <b>(X)</b>  |
| <b>NET CASH FLOW</b>             | <b>X</b>                             | <b>X</b>                                     | <b>X</b>                                     | <b>X</b>  | <b>X</b>   | <b>X</b>                                     | <b>X</b>                                     | <b>X</b>  | <b>X</b>  |

\* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

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**Extract From Notes to the Financial Statements of Government C**

**Assistance Provided by Non-Governmental Organizations (NGOs) (Paragraph 2.1.64)**

Assistance from NGOs is included in the amount of “Other Grants and Aid” in the Statement of Cash Receipts and Payments. The amount of assistance from NGOs received during the reporting period in the reporting currency is:

|                    | 200X          |                           | 200X-1        |                           |
|--------------------|---------------|---------------------------|---------------|---------------------------|
|                    | Cash Receipts | Payments by third parties | Cash Receipts | Payments by third parties |
| <b>Grant Funds</b> | X             | X                         | X             | -                         |
| <b>Loan Funds</b>  | -             | -                         | -             | -                         |
| <b>Total</b>       | <b>X</b>      | <b>X</b>                  | <b>X</b>      | <b>-</b>                  |

Assistance was received from NGOs under agreements specifying that the assistance would be utilized for the following purposes:

|              | Development Assistance |          | Emergency Assistance |          | Other    |          | Total    |          |
|--------------|------------------------|----------|----------------------|----------|----------|----------|----------|----------|
|              | 200X                   | 200X-1   | 200X                 | 200X-1   | 200X     | 200X-1   | 200X     | 200X-1   |
|              | <b>NGO 1</b>           | X        | X                    | -        | -        | -        | X        | X        |
| <b>NGO 2</b> | -                      | -        | X                    | -        | -        | -        | X        | -        |
| <b>NGO 3</b> | X                      | X        | X                    | -        | -        | -        | X        | X        |
| <b>Total</b> | <b>X</b>               | <b>X</b> | <b>X</b>             | <b>-</b> | <b>-</b> | <b>X</b> | <b>X</b> | <b>X</b> |
| <b>USD</b>   | X                      | X        | X                    | X        | -        | X        | X        | X        |
| <b>Euro</b>  | X                      | X        | X                    | -        | -        | -        | X        | X        |
| <b>Yen</b>   | -                      | -        | X                    | X        | -        | -        | X        | X        |

The currency in which external assistance was provided was as follows:

- NGO 1 - US Dollars to the amount of YYY and other currency being (specify currency) to the amount of X
- NGO 2 – Euros to the amount of YYY
- NGO 3 – Yen to the amount of YYY

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not

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subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

During 200X, NGO 1 provided medical teams and medical equipment in support of earthquake victims in the ZZZ region. Temporary shelter, food and clothing were also supplied by NGO 2. The value of the goods and services received has been estimated at XX domestic currency units. The value of the specialized emergency assistance provided has been determined based on cost estimates provided by the NGOs involved.

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of assistance grants.

There were no amounts of undrawn assistance from NGOs in 200X or 200X-1.

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**Extract From Notes to the Financial Statements of Government C**

**Classes of External Assistance** (*Paragraph 2.1.66 and 2.1.70*)

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilized for the following purposes:

|                        | <b>Development Assistance</b> |               | <b>Emergency Assistance</b> |               | <b>Other</b> |               | <b>Total</b> |               |
|------------------------|-------------------------------|---------------|-----------------------------|---------------|--------------|---------------|--------------|---------------|
|                        | <b>200X</b>                   | <b>200X-1</b> | <b>200X</b>                 | <b>200X-1</b> | <b>200X</b>  | <b>200X-1</b> | <b>200X</b>  | <b>200X-1</b> |
|                        | <b>Loan Funds</b>             | X             | X                           | -             | -            | X             | -            | X             |
| <b>Grant Funds</b>     | X                             | -             | X                           | X             | -            | -             | X            | X             |
| <b>Total</b>           | <b>X</b>                      | <b>X</b>      | <b>X</b>                    | <b>X</b>      | <b>X</b>     | <b>-</b>      | <b>X</b>     | <b>X</b>      |
| <b>Amount utilized</b> | <b>X</b>                      | <b>X</b>      | <b>X</b>                    | <b>X</b>      | <b>X</b>     | <b>-</b>      | <b>X</b>     | <b>X</b>      |

|                     | <b>Agency 1</b>   |               | <b>Agency 2</b> |               | <b>Agency 3</b> |               | <b>Agency 4</b> |               |
|---------------------|-------------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
|                     | <b>200X</b>       | <b>200X-1</b> | <b>200X</b>     | <b>200X-1</b> | <b>200X</b>     | <b>200X-1</b> | <b>200X</b>     | <b>200X-1</b> |
|                     | <b>Loan Funds</b> | X             | X               | -             | -               | X             | -               | X             |
| <b>Grant Funds</b>  | X                 | -             | X               | X             | -               | X             | X               | X             |
| <b>Total</b>        | <b>X</b>          | <b>X</b>      | <b>X</b>        | <b>X</b>      | <b>X</b>        | <b>X</b>      | <b>X</b>        | <b>X</b>      |
| Currency: US Dollar | X                 | X             | -               | -             | -               | -             | -               | -             |
| Euro                | -                 | -             | X               | X             | -               | -             | -               | -             |
| Yen                 | -                 | -             | -               | -             | X               | X             | -               | -             |
| Other               | -                 | -             | -               | -             | -               | -             | X               | X             |

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**Undrawn External Assistance** (*Paragraph 2.1.72*)

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilized at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. External assistance loans cancelled or expired resulted from overestimation of the cost of development projects. Changes in the amount of undrawn assistance loans and grants are presented in the entity's reporting currency.

|                                 | Development Assistance |               | Emergency Assistance |               | Other       |               | Total       |               |
|---------------------------------|------------------------|---------------|----------------------|---------------|-------------|---------------|-------------|---------------|
|                                 | <u>200X</u>            | <u>200X-1</u> | <u>200X</u>          | <u>200X-1</u> | <u>200X</u> | <u>200X-1</u> | <u>200X</u> | <u>200X-1</u> |
| <i>Opening balance</i>          |                        |               |                      |               |             |               |             |               |
| Loans                           | X                      | X             | -                    | -             | X           | X             | X           | X             |
| Grants                          | X                      | X             | -                    | X             | -           | -             | X           | X             |
| <i>Approved in period</i>       |                        |               |                      |               |             |               |             |               |
| Loans                           | X                      | X             | -                    | -             | X           | -             | X           | X             |
| Grants                          | X                      | X             | X                    | X             | X           | X             | X           | X             |
| <i>Total available</i>          | X                      | X             | X                    | X             | X           | X             | X           | X             |
| Loans drawn down                | (X)                    | (X)           | -                    | -             | (X)         | (X)           | (X)         | -             |
| Grants drawn down               | (X)                    | (X)           | (X)                  | (X)           | -           | -             | (X)         | (X)           |
| Loans cancelled/expired         | (X)                    | (X)           | -                    | -             | -           | -             | (X)         | (X)           |
| Grants cancelled/expired        | -                      | -             | -                    | -             | -           | -             | -           | -             |
| Exchange difference             | X                      | X             | -                    | -             | X           | X             | X           | X             |
| <i>Closing balance - Loans</i>  | X                      | X             | -                    | -             | X           | X             | X           | X             |
| <i>Closing balance - Grants</i> | X                      | X             | -                    | -             | X           | X             | X           | X             |

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| Closing balance<br>By currency held | Development Assistance |          | Emergency Assistance |          | Other    |          | Total    |          |
|-------------------------------------|------------------------|----------|----------------------|----------|----------|----------|----------|----------|
|                                     | 200X                   | 200X-1   | 200X                 | 200X-1   | 200X     | 200X-1   | 200X     | 200X-1   |
| US Dollar                           | X                      | X        | -                    | X        | X        | X        | X        | X        |
| Euro                                | X                      | X        | -                    | X        | X        | X        | X        | X        |
| Yen                                 | X                      | X        | -                    | -        | X        | X        | X        | X        |
| Other                               | X                      | X        | -                    | -        | -        | -        | X        | -        |
|                                     |                        |          |                      |          |          |          |          |          |
| <b>By reporting currency</b>        |                        |          |                      |          |          |          |          |          |
| <i>Loans</i>                        |                        |          |                      |          |          |          |          |          |
| Agency 1                            | X                      | X        | -                    | -        | X        | X        | X        | X        |
| Agency 4                            | X                      | X        | -                    | -        | X        | X        | X        | X        |
| <i>Grants</i>                       |                        |          |                      |          |          |          |          |          |
| Agency 2                            | X                      | X        | -                    | X        | X        | X        | X        | X        |
| Agency 4                            | X                      | X        | -                    | X        | X        | X        | X        | X        |
| <b>Total</b>                        | <b>X</b>               | <b>X</b> | <b>-</b>             | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> | <b>X</b> |

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### **Significant terms and conditions** (*Paragraph 2.1.76*)

#### *General Restrictions*

The balance of commitments for, and undrawn balances of, external assistance is subject to, or restricted by, performance of agreed actions or the maintenance of agreed economic or financial performance levels.

The Government has prepared an economic development plan for receipt of development assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Government and the donors have agreed the following major targets within the poverty reduction strategy: (Entity to identify major targets).

The Government and the donor community have agreed on methods to monitor progress to achieve the agreed targets and will meet annually to review progress.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

#### *Procurement Restrictions*

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods; and (b) the purchase of goods or services must be from their respective member countries. External assistance from bilateral agencies is either unrestricted or limited to purchases of goods or services from the country providing the funds. All "Specific Purpose Loans or Grants" fund specifically defined projects and, as such, the procurement of goods and services is restricted to the agreed inputs for each project.

### **Non Compliance with other significant terms and conditions** (*Paragraph 2.1.83*)

The Government's expenditures in the education sector did not meet the target level primarily due to construction delays caused by an earthquake. Expenditures were X percent below the target. Steps have been taken to correct the under investment in the education sector and the Government and the relevant donors support the corrective actions planned. The Government has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

### **Guarantees of external assistance loans and grants** (*Paragraph 2.1.80*)

The Government of YYYY has guaranteed an outstanding export financing loan in the amount of currency units XXX (200X-1: Nil). The principal is to be repaid in 5 years. The interest rate applicable to the outstanding balance is Y percent. Annual, interest only service payments are to be made. No additional terms or conditions arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

**Repayment Terms and Conditions - Debt Service Obligations** (*Paragraph 2.1.86*)

The terms of development assistance loans include grace periods which range from 0 to a maximum of 7 years. Interest rates include both fixed rates and variable rates. All development assistance loans are denominated in US Dollars or Euros. Interest rates on fixed rate loans as at fiscal year ending 200X, range from X percent to Y percent with a weighted average of Z percent. For the fiscal year ending 200X-1, they range from X percent to Y percent with a weighted average of Z percent. Interest rates on variable rate loans range from LIBOR plus X percent to LIBOR plus Y percent with a weighted average at the end of fiscal year 200X of Z percent and at the end of fiscal year 200X-1 of Z percent.

Other external assistance loans do not include a grace period, and are denominated in a range of currencies including US Dollars, Euros and Yen.

| <u>200X</u>   |                |              |              |              |
|---|----------------|--------------|--------------|--------------|
| <b>Outstanding Debt by Remaining Grace Period Years</b> |                |              |              |              |
|   | <b>Expired</b> | <b>0 – 4</b> | <b>5 – 7</b> | <b>Total</b> |
| Development Assistance                                  | X              | X            | X            | X            |
| Other   | X              | -            | -            | X            |
| <b>Total</b>  | X              | X            | X            | X            |

| <u>200X-1</u>   |                |              |              |              |
|---|----------------|--------------|--------------|--------------|
| <b>Outstanding Debt by Remaining Grace Period Years</b> |                |              |              |              |
|   | <b>Expired</b> | <b>0 – 4</b> | <b>5 – 7</b> | <b>Total</b> |
| Development Assistance                                  | X              | X            | X            | X            |
| Other   | X              | -            | -            | X            |
| <b>Total</b>  | X              | X            | X            | X            |

Development assistance loans have repayment periods varying from X years to Y years subsequent to the grace period with a weighted average for outstanding debt of Z years including the grace period. In all cases, the debt service is based on a fixed payment of principal plus interest accrued.

Other external assistance loans have repayment periods varying from X to Y years with a weighted average of Z years. Debt service is based on a fixed payment of principal plus interest accrued.

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**200X**

**Debt Service Payments Including Interest  
US**

|                        | <b>Dollar</b> | <b>Euro</b> | <b>Yen</b> | <b>Other</b> | <b>Total</b> |
|------------------------|---------------|-------------|------------|--------------|--------------|
| Development Assistance | X             | X           | X          | X            | X            |
| Other                  | X             | X           | -          | -            | X            |
| <b>Total</b>           | <b>X</b>      | <b>X</b>    | <b>X</b>   | <b>X</b>     | <b>X</b>     |

**200X-1**

**Debt Service Payments Including Interest  
US**

|                        | <b>Dollar</b> | <b>Euro</b> | <b>Yen</b> | <b>Other</b> | <b>Total</b> |
|------------------------|---------------|-------------|------------|--------------|--------------|
| Development Assistance | X             | X           | X          | X            | X            |
| Other                  | X             | X           | -          | -            | X            |
| <b>Total</b>           | <b>X</b>      | <b>X</b>    | <b>X</b>   | <b>X</b>     | <b>X</b>     |

All debt service payments for subsequent years are based on payment of a fixed amount comprising principal plus accrued interest. The interest payment or service charge component is based on the outstanding principal of each loan at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

**200X + 1 and X Subsequent Years**

**Debt Service Payments Including Interest  
US**

|                        | <b>Dollar</b> | <b>Euro</b> | <b>Yen</b> | <b>Other</b> | <b>Total</b> |
|------------------------|---------------|-------------|------------|--------------|--------------|
| Development Assistance | X             | X           | X          | X            | X            |
| Other                  | X             | X           | -          | -            | X            |
| <b>Total</b>           | <b>X</b>      | <b>X</b>    | <b>X</b>   | <b>X</b>     | <b>X</b>     |

**Receipt of Goods and Services (Paragraph 2.1.90 and 1.10.21)**

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been determined based on cost estimates provided by

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the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

### **Appendix 3 – Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2 Statement of Cash Flows**

*Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which intends to migrate to the accrual basis of accounting to present a statement of cash receipts and payments in the same format as that required by IPSAS 2 Statement of Cash Flows. IPSAS 2 is applied by an entity which reports on an accrual basis of accounting in accordance with International Public Sector Accounting Standards.*

*This appendix provides a summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under the cash basis of accounting as required by this Standard. Entities intending to present a statement of cash receipts and payments in accordance with the requirements of IPSAS 2 as far as is appropriate will need to refer to that IPSAS.*

#### **Presentation in the Format Required by IPSAS 2 Statement of Cash Flows**

1. IPSAS 2 *Statement of Cash Flows* requires an entity which prepares and presents financial statements under the accrual basis of accounting to prepare a cash flow statement which reports cash flows during the period classified by operating, investing and financing activities as defined below.

#### **Definitions**

2. *Financing activities* are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.  
*Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.  
*Operating activities* are the activities of the entity that are not investing or financing activities.

#### **Components of the Financial Statements**

3. In presenting a statement of cash receipts and payments in this format it may be necessary to classify cash flows arising from a single transaction in different ways. (The term cash flow statement is used in the remainder of this appendix for a statement of cash receipts and payments presented in the same format as that required by IPSAS 2.) For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element may be classified as a financing activity. An entity presenting information by way of a cash flow statement presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities.
4. A cash flow statement will include line items which present the following amounts:

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- (a) total receipts from operating activities;
- (b) total payments on operating activities;
- (c) net cash flows from operating activities;
- (d) net cash flows from investing activities;
- (e) net cash flows from financing activities;
- (f) beginning and closing balances of cash; and
- (g) net increase or decrease in cash.

Additional line items, headings and sub-totals will also be presented on the face of the statement when such presentation is necessary to present fairly the entity's cash flows.

- 5. An entity will also present on the face of the cash flow statement or in the notes:
  - (a) major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;
  - (b) a sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and
  - (c) an analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

Separate disclosure of payments made for capital acquisitions and for interest and dividends is also consistent with the requirements of IPSAS 2.

- 6. Disclosure of information about such matters as whether cash is generated from taxes, fines, fees (operating activities), the sale of capital assets (investing activities) and/or borrowings (financing activities) and whether it was expended to meet operating costs, for the acquisition of capital assets (investing activities) or for the retirement of debt (financing activities) will enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows. Accordingly, this Standard encourages all entities to disclose this information in the financial statements and/or related notes.

#### **Operating Activities**

- 7. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

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- (a) by way of taxes (directly and indirectly); and
- (b) from the recipients of goods and services provided by the entity.

The disclosure of the amount of net cash flows from operating activities also assists in identifying the extent to which operations of the entity generate cash that can be deployed to repay obligations, pay a dividend/distribution to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

8. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:
- (a) cash receipts from taxes, levies and fines;
  - (b) cash receipts from charges for goods and services provided by the entity;
  - (c) cash receipts from grants, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;
  - (d) cash receipts from royalties, fees and commissions;
  - (e) cash payments to other public sector entities to finance their operations (not including loans or equity injections);
  - (f) cash payments to suppliers for goods and services;
  - (g) cash payments to and on behalf of employees;
  - (h) cash receipts and cash payments of a public sector insurance entity for premiums and claims, annuities and other policy benefits;
  - (i) cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
  - (j) cash receipts and payments from contracts held for dealing or trading purposes;
  - (k) cash receipts or payments from discontinuing operations; and
  - (l) cash receipts or payments in relation to litigation settlements.
9. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale.

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Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

10. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of the entity, and no clear distinction is made for the disposition of those funds between current activities, capital works and contributed capital. Where an entity is unable to separately identify appropriations or budget authorizations as current activities, capital works (operating activities) and contributed capital (investing activities), IPSAS 2 explains that the entity should classify the appropriation or budget authorization as cash flows from operations, and disclose this in the notes to the statement of cash flows.

### **Investing Activities**

11. The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:
  - (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
  - (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
  - (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
  - (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
  - (e) cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
  - (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
  - (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or

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trading purposes, or the payments are classified as financing activities; and

- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is designated as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

#### **Financing Activities**

- 12. The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
  - (a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
  - (b) cash repayments of amounts borrowed;
  - (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and
  - (d) cash receipts and payments relating to the issue of and redemption of currency.

#### **Interest and Dividends**

- 13. IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.
- 14. The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

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**Reporting Major Classes of Receipts and Payments**

15. The sub-classification of receipts depends upon the size, nature and function of the amounts involved. Depending upon the nature of the entity, the following sub-classifications may be appropriate:
  - (a) receipts from taxation (these may be further sub-classified into types of taxes);
  - (b) receipts from fees, fines, penalties and licenses;
  - (c) receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);
  - (d) receipts from grants, transfers, or budget appropriations (possibly classified by source); and
  - (e) receipts from interest and dividends.
16. Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Part 1 of this Standard.

## **Appendix 4 – Qualitative Characteristics of Financial Reporting**

*Paragraph 1.3.32 of Part 1 of this Standard requires that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarizes the qualitative characteristics of financial reporting.*

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

### **Understandability**

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

### **Relevance**

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

### *Materiality*

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

### **Reliability**

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

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### *Faithful Representation*

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

### *Substance Over Form*

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

### *Neutrality*

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

### *Prudence*

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

### *Completeness*

The information in financial statements should be complete within the bounds of materiality and cost.

### **Comparability**

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- comparison of financial statements of different entities; and
- comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

### **Constraints on Relevant and Reliable Information**

#### *Timeliness*

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

#### *Balance between Benefit and Cost*

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

#### *Balance between Qualitative Characteristics*

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

## **Appendix 5 – Establishing Control of Another Entity for Financial Reporting Purposes**

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).
2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a Government Business Enterprise (GBE) may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

### **Control for Financial Reporting Purposes**

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.
4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.
5. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to

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operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.
7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

### **Regulatory and Purchase Power**

8. Governments and government entities have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of a public sector entity include only those resources (cash, including cash equivalents)

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that it controls and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

- (a) the power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
- (b) entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

### **Determining Whether Control Exists for Financial Reporting Purposes**

9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.
10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

#### *Power conditions*

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

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- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

*Benefit conditions*

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

*Power indicators*

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.
- (e) The entity holds a “golden share”<sup>1</sup> (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

*Benefit indicators*

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.

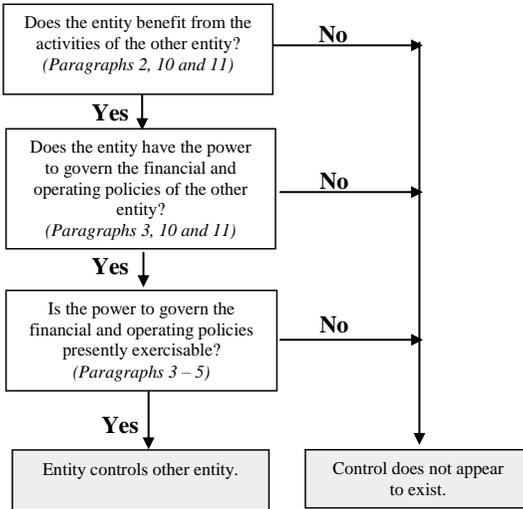
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<sup>1</sup> “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

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- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
  - (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
  - (d) The entity is exposed to the residual liabilities of the other entity.
12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

**Establishing Control of another Entity for  
Financial Reporting Purposes**



13. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.