

Agenda Item 3: Cash Basis IPSAS Review

Paul Sutcliffe
IPSASB Meeting

Toronto, Canada
June, 2015

Objective and Scope of Review

Few adopt the cash basis IPSAS

- Cash Basis IPSAS issued 2003
- Updated 2006 (presentation of budget info) and 2007(external assistance)
- Task Force Report 2010

Objectives of Review :

- Reduce Obstacles to adoption with respect to:
 - Consolidation, External Assistance, Third Party Payments - the major obstacles
 - Consider Task Force Recommendations & ICGFM submission
- **Undertake high level “housekeeping” review**
 - No housekeeping review since issue of Cash Basis IPSAS 2003
- **Clarify role of cash basis IPSAS in IPSASB standards setting strategy**
 - Stepping stone to accrual IPSASs

Project Schedule – immediate milestones

Project Brief approved in March 2015

Task Based Group (TBG) appointed in May 2015

- Abdullah Yusuf
- Andreas Bergmann
- Wan Selamah Wan Sulaiman

- **Issues Paper – June 2015**
 - Objective of this session: Provide directions for ED
- **Approve ED September 2015 – 4 months exposure**
- **Review responses June 2016**

Agenda Material and Process

- **Work through Issues Paper – focus on major issues (Agenda Item 3.1)**
 - Consolidation, External Assistance, Third Party Payments
 - Overlap external assistance & 3rd party payments: classify as Task Force & ICGFM
 - Leaving housekeeping matters aside.
 - Housekeeping - broad guidance on approach & areas for update – not details
 - Comments on communications strategy, format of ED
- **Annotated draft (item 3.4) for sense of staff views re amendments**
 - For information on areas for edit - do not intend discussing, comments welcome.
- **Other agenda items summarized & cross referenced in issues paper**
 - Recommendations of Task Force (2010) – Agenda Item 3.2
 - Submission of ICGFM (2015) – Agenda Item 3.3 (a)
 - Personal views of members of ICGFM Committee – Agenda Item 3.3 (b)

1. Consolidation -

Part 1: paras 1.6.1 – 1.6.21. & 1.8.3 . Part 2: paras 2.1.41 – 2.1.48

- **Controlling entities required to present financial statements that consolidate all controlled entities (*Issues paper extract 1 page 5*)**
 - Exceptions as per IPSAS 6 *Consolidated and Separate Fin. Statements* (2003)
 - Transitional provisions:
 - 3 years relief from elimination transactions & balances of entities in economic entity
- **Task Force Report 2010: Identified as major obstacle**
 - Legislative & capacity constraints – access to information, conforming policies.....
 - Loss of information about “core government” (particularly if consol’n of GBE’s)
 - Proposes transitional provisions of 3 to 5 years for full consolidation
- **ICGFM submission 2015 : Identified as major obstacle**
 - Technical issues, capacity constraints, priority for GFS approach
 - Proposes relocate all consolidation requirements to Part 2 as encouragements

Consolidation— approaches to provide relief

Staff view: To achieve objectives of this review need to provide relief

- i. Transitional provision of 3-5 years (Task Force)**
 - Unlikely to overcome obstacle
- ii. Recast all consolidation requirements as encouragement (ICGFM)**
 - Overcomes obstacle, but composition of group and accounting procedures free choice
- iii. Retain requirements but provide broad relief for concerns identified**
 - Essentially much choice (legislative override?) but retain link to accrual requirements; or
 - Retain requirements but specific exemptions:eg do not require GBE's to be consolidated
- iv. Encourage controlling entity to consolidate controlled entities; but Retain consolid'n procedures as requirement (Issues Paper Extract 2, p11);**
 - Overcomes obstacle and allows build consistent with accrual basis
- v. Identify an interim group reporting entity (budget sector or GGS)**
 - Overcomes obstacles - but jurisdictional issues, build to accrual may pass interim group
 - IPSAS requires presentation of actual and budget information (Issues Paper Extract 3, p14)

Consolidation– approaches considered & staff view

- **Staff view: approach (iv):**
 - Controlling entity encouraged, but not required, to present consolidated financial statements that encompass all controlled entities;
 - If present consolidated financial statements, apply consolidation procedures
- **Other approaches not raised by staff?**
- **IPSASB DIRECTIONS- Approach for draft ED**

Recipients of External Assistance

Part 1 paras 1.10.1 - 1.10. 34. Part 2 paras 2.1.64 -2.1.93

- **External assistance**
 - loans, grants, technical assistance, guarantees ...under a binding agreement by multilateral or bilateral agencies and governments. Excludes assistance from NGOs
- **Added to Cash Basis IPSAS in 2007 after extensive consultation**
 - 2005 ED 24 ..Disclosure requirements for recipients of external assistance
 - 2006 ED 32... Disclosure requirements for recipients of external assistance
 - ED 32 proposals supported after extensive consultation and input.
 - Proposals to also require disclosure of sources & uses of external assistance
- **Expectations:**
 - Information for accountability & decision making (limited by cash basis)
 - Prospect of reducing recipients compliance costs if donors harmonized under IPSAS

Recipients of External Assistance

Part 1 paras 1.10.1 - 1.10. 34. Part 2 paras 2.1.64 -2.1.93

- **The Cash Basis IPSAS requires disclosure of (Issues Paper, Extract 4 p.17)**
 - Amounts received in cash & third party payments – as grants or loans & class of provider
 - ***Relief: Third party disclosures only when entity has been advised of, or can verify, payment***
 - Undrawn external assistance available (total and by way of grant or loans)
 - **Only when specified in binding agreement & highly likely terms & conditions will be satisfied**
 - Amount of debt rescheduled or cancelled
 - Non compliance with significant terms/conditions that result in cancellation/return of assistance

- **Cash Basis IPSAS encourages disclosure of (Issues Paper, Extract 5 p.19):**
 - Purpose for which assistance provided & used, & identity of providers
 - Showing amounts of loans & grants and details of undrawn external assistance

Recipients of External Assistance

Part 1 paras 1.10.1 - 1.10.34. Part 2 paras 2.1.64 -2.1.93

- **Task Force Report**

- Concerns (3) data not available to satisfy requirements
- Others (5) require (not encourage) purposes assistance provided, used & provider
- IPSASB consider recasting the encouraged disclosures as requirements
 - Task Force noted complexity and sensitivity of doing so

- **ICGFM submission**

- Reposition required disclosures of external assistance as encouragements
 - Not required by accrual IPSASs. Data difficult to access & major area non-compliance.

- **TBG input and personal views of ICGFM committee members**

- Data not made available as was anticipated when IPSAS issued
 - Compliance with requirements not achievable in practice
 - Possible to disclose total assistance received in cash and amount of grant and loan
 - Move to encouragements or remove from the IPSAS altogether

Recipients of External Assistance - Staff View

- **Staff view: access to data proving more problematic than anticipated**
 - Retain requirements to disclose:
 - para 1.10.8 – total external assistance in cash
 - Para 1.10.10 – significant classes of provider
 - Para 1.10.11 – total amount in form of loans and total in grants

Some input indicates it may be achievable. Task Force support. Retains link to existing requirements.

- Task Force: consider recasting some encouragements as requirements
 - Purpose for which assistance was provided and used
 - Amount provided by each provider

Staff: don't recast encouraged disclosure about following as requirements

Unlikely info. will be available, may introduce additional obstacles to adoption, sensitivities

- **IPSASB DIRECTIONS**

Third Party Payments (Settlements)

Part 1 para 1.3.24. Part 2 para 2.1.90

A 3rd party settles obligation, purchases goods/services for the entity

- Involves similar issues to & overlap with external assistance
- Raised under this heading by Task Force & ICGFM submission

• **The IPSAS requires disclosure on face of statement** (Extract 7. P25):

- Total payments by third parties which are part of the eco entity
- Total payments by third parties which are not part of the eco entity
- Classes of sources and uses of payments relevant to entity's operation

Relief: *Disclosure of third party payments required only when entity has been advised of, or can otherwise verify, payment*

• **Cash Basis IPSAS encourages note disclosure of:**

- the value of external assistance in the form of goods and services

Third Party Payments (Settlements)

- **The Task Force report**

- 2 respondents identified 3rd party disclosures as obstacle to adoption
- 4 respondents sought additional guidance on their operation

Task Force: relief when info. not available appropriate, but not well understood

- Not a clear distinction between 3rd party payments and external assistance in form of goods and services

Task Force View: IPSASB should clarify the difference

- **The ICGFM submission**

- Recast requirements for third party payments as encouragements:
 - They are not required by accrual IPSASs
- Need guidance on bank accounts established for third party payments
 - Are they cash of the reporting entity or just a source for 3rd party payments

Third Party Payments (Settlements)

Staff Views

- **Continue to require: payment by 3rd parties if part of the eco. entity**
 - Reported cash flows of entity not determined by banking arrangements
 - Relevant for government departments and agencies that issue GFRs
- **Encourage: payments by 3rd parties if not part of eco. entity**
 - Concern re availability of data about payments by these 3rd parties
 - Similar concerns as for external assistance in form of 3rd party payments
- **Consider guidance on bank accounts used for 3rd party payments**
 - Staff seek input from ICGFM in developing guidance for IPSASB consideration
 - Are such accounts cash of the reporting entity or just a source for 3rd party payments
- **3rd party payments Vs external assistance goods & services in kind**
 - Amend para 2.1.91 drawing on Para 1.10.7 to highlight distinction (Issues Paper para 110)

• IPSASB DIRECTIONS

Third Party Payments (Settlements)

Staff Views

- **3rd party payments Vs external assistance goods & services in kind**
 - Simple amendment to para 2.1.91 to draw on Para 1.10.7 to highlight distinction
 - Necessary (consequential) if IPSASB moves external assistance to encouragement?
 - (Not intended to review drafting at this stage – but will include in ED for next meeting)
- *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.*

Housekeeping - Background

- **2003 - Cash Basis IPSAS issued. IPSASs 1- 20 on issue**
- **2006: Updated: Presentation of Budget Information in fin. statements**
 - Part 1 section 1.9 & additions to Part 2. Derived from IPSAS 24.
- **2007: Updated: Recipients of External Assistance**
 - Part 1 section 1.10 & additions to Part 2. No equiv. accrual IPSASs
- **2015 IPSASs 1- 38 on issue**
 - 20 IPSASs on issue 2003 have been updated
 - IPSAS 6 *Consol'n*, 7 *J.Ventures*, 8 *Associates*, 15 *Fin. Instruments*: withdrawn (to be)
 - 18 new IPSASs issued (3 x financial instruments & 4 x consolidation, JVs, etc)
- **No “housekeeping” review.**

Housekeeping – Task Force, ICGFM, Others

- **Task Force Recommended that**
 - Part 1 of the IPSAS be refreshed for changes in equivalent IPSASs
 - Additional disclosures about fin. instruments not be required or encouraged
 - Adds to size, impediments to adoption, disclosure of info. on A & L a priority
 - Part 2 not be subject to housekeeping review – rather remove Part 2
 - Out of date. Significant resources to maintain. Separate resource & link to study 14
- **ICGFM submission: no specific comment on housekeeping & Part 2**
- **Personal views of ICGFM members – important to retain Part 2**
 - Allows entity to comply with IPSAS and disclose additional accrual info.
 - Additional disclosures must comply with QCs and relevant accrual IPSASs
 - Cash Basis IPSAS translated. Study 14 not translated.

Housekeeping – Broad approach

- **Staff propose narrow view of Housekeeping as per Task Force**
 - Update for consistency with updated 20 IPSASs on issue as cash basis issued
 - including their reissued versions (i.e. consolidation, JV, Associates)
 - Do not add requirements/encouragements about fin. instruments
 - Concerns: introducing additional impediments to adoption, increasing size of IPSAS
 - Not add additional requirements/encouragements derived from “new” IPSASs
 - Beyond scope of review. Simply note issue of relevant new IPSASs & RPGs in Part 2
- **Retain Part 2 of IPSAS – contrary to recommendation of Task Force**
 - Staff supports Task Force recommendation but...
 - Removal of Part 2 beyond scope of this review
 - Support for retention of Part 2 from ICGFM committee members
- **IPSASB Directions/Reactions re Broad Approach proposed**

Housekeeping – Broad approach

- **Format, Terminology, Framework, Reliance on Preface**
 - Format : align style of introduction & objectives paras with accrual IPSASs,
 - Limit need to refer to Preface
 - Retain comment on materiality rather than rely on Preface
 - Implications also for GBEs - following.
 - Terminology : use *reporting entity, economic entity (or group reporting entity)* as per accrual IPSASs
 - Alignment with Conceptual Framework as appropriate
 - Objectives and users, GPFRs, QCs (update appendix 4 as necessary), other matters

- **IPSASB Directions/Reactions re approach proposed**

Housekeeping.

Overview of proposed amendments to Part 1

- **Cash Basis IPSAS Part 1 – still a work in progress**
 - **GBE’s paras 1.1.5 -1.1.7 (Issues Paper Extract 9. p.34. agenda item 8 also)**
 - Delete “old” format & clarify IPSAS applies to pub. sector entities adopting cash basis
 - **Correction of errors (paras 1.5.1 – 1.5.5) based on IPSAS 3 on issue 2003**
 - Update to reflect revised IPSAS 3 - for discussion next meeting re extent of revisions
 - **Consolidations (para 1.6.1 – 1.6.20)**
 - Amend for IPSASB decisions, update for IPSAS 35 *Consolidated Fin. Statements*
 - **Foreign currency paras (1.7.1-1.7.8)**
 - Update for revised IPSAS 4, consequential re part 2 hyperinflationary economies
 - **Consequentials including update to Appendix 1 - illustrations**
- **IPSASB Directions/Reactions re areas and nature of revisions**

Housekeeping

Overview of proposed amendments to Part 2

- **Cash Basis IPSAS Part 2**
 - **Definitions (para 2.1.1)**
 - delete financial assets because not used in the IPSAS
 - **Ordinary & extra-ordinary items (Para 2.1.1, 2.1.6 – 2.1.14)**
 - Remove encouragement – no longer required in equivalent IPSASs
 - **Reference to accrual IPSASs & RPGs (paras 2.1.31 – 2.1.35, 2.1.49 – 2.1.63)**
 - Minor refinements for issue of IPSAS 36, 37 & updates to IPSAS 20, IPSAS 10
 - Acknowledge “new” IPSASs and RPG 3 service performance
 - **Migrating to accrual basis encouraged use IPSAS 2 format (para 2.2.1– 2.2.2)**
 - Little if any amendment necessary for updated IPSAS 2 *Cash Flow Statements*
 - **Update Appendices 2, 3, 4 & 5 for consequentials**
- **IPSASB Directions/Reactions re areas and nature of revisions**

Communication Strategy and Next meeting

- **Communication Strategy**
 - Usual process: media release and use of IFAC communication mechanisms
 - Members, observers, staff presentations
 - Material to support: early warning information sheet, advice on likely forums
 - Also “Accountability Now”, Public Interest Committee, ICGFM
 - **IPSASB Directions re additional initiatives**
- **Introductory material in ED to clarify role of Cash Basis IPSAS**
- Next meeting Draft ED focussing on areas of change only

IPSA SB

www.ipsasb.org
