

Meeting: International Public Sector Accounting
Standards Board
Meeting Location: Toronto, Canada
Meeting Date: September 22–25, 2015

Agenda Item 2

For:
 Approval
 Discussion
 Information

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

Objective of Agenda Item

The objective of this session is to review and provide directions for the further development of an Exposure Draft (ED) identifying amendments to the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting”.

Material(s) Presented

Agenda Item 2.1 Issues Paper, Cash Basis IPSAS – Limited Scope Review
Agenda Item 2.2(a) Marked up first draft of Part 1 of the Cash Basis IPSAS
Agenda Item 2.2(b) Marked up first draft of Part 2 of the Cash Basis IPSAS

Action(s) Requested

The IPSASB is requested to review the draft ED and supporting Issues Paper, and provide directions for the further development of the draft ED for consideration at a future 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 Cash Basis IPSAS). The Task Force was to identify major difficulties that public sector entities in developing economies encounter in implementing the Cash Basis IPSAS and make recommendations about modifications that could be made to overcome those difficulties. The Task Force presented its report to the IPSASB in mid 2010. The IPSASB accepted the Task Force's recommendations. 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 agreed to action a limited scope review of the Cash Basis IPSAS to:
 - (i) Propose, amendments to requirements in Part 1 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) Propose limited "housekeeping" amendments where necessary to ensure the IPSASs requirements remain appropriate; and
 - (iii) Clarify that adoption of the Cash Basis IPSAS is intended as an intermediate step on the road to accruals based financial reporting, not an end in itself.
3. At its June 2015 meeting, the IPSASB considered a staff issues paper, key Recommendations of the IPSASB Task Force and proposals for revisions to the Cash Basis IPSAS submitted by the International Consortium on Governmental Financial Management (ICGFM). The IPSASB provided directions for development of an Exposure Draft (ED) that would propose amendments to the Cash Basis IPSAS consistent with the objectives of this limited scope review.

The Issues Paper and Draft Exposure Draft

4. This Issues Paper provides an overview of the amendments to the Cash Basis IPSAS proposed by staff to respond to the directions of the IPSASB at its June 2015 meeting. It also identifies issues in developing the draft ED to reflect those amendments, and staff proposal for resolution of those issues. The marked-up first draft ED is included as Agenda Item 2.2: amendments to Part 1 of the IPSAS at Agenda item 2.2(a) and amendments to Part 2 of the IPSAS at 2.2(b).
5. Comments on some broad structural, editorial and drafting issues that have a pervasive effect on the draft ED are noted below. Issues related to the substantive revisions to remove obstacles to adoption of the IPSAS and deal with some "housekeeping" matters are noted later in the paper.

Structure, pervasive amendments and drafting issues

6. The draft ED proposes amendments to the Cash Basis IPSAS that have some pervasive effects. For example, amendments to (a) acknowledge issue of the “*The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*” (the Conceptual Framework); (b) reflect the revised approach to exclusion of government business enterprises (GBEs) from the scope of IPSASs and the identification of entities for which the IPSASs are developed; (c) reflect revisions in drafting protocols since issue of the Cash Basis IPSAS. These matters, and the extent to which this draft ED has been revised to respond to them, and the structure of the draft ED and related issues are noted below.

Structure of the Exposure Draft

7. At the June 2015 meeting, the IPSASB agreed that Part 1 of the draft ED prepared for consideration at this meeting should comprise only the paragraphs or sections of Part 1 that are subject to substantial amendment. The IPSASB also agreed that a similar approach be adopted for Part 2 unless the changes are so pervasive that there is little benefit in carving out those areas that are relatively untouched.
8. The Cash Basis IPSAS is a large document and cross referencing from text that is amended in the draft ED to sections of the IPSAS that remain unchanged, and therefore are not included in the draft ED, can be awkward. However, for the most part, staff has adopted the same format for amendments to an IPSAS as reflected in the recently issued ED 56, *The Applicability of IPSASs*. Consequently, the draft ED includes, and identifies by mark-up, only the paragraphs that are subject to change. This ensures that readers need not read text that is not subject to change and for which the IPSASB is not seeking comments as part of this limited scope review. However, for those sections of the IPSAS that are subject to quite extensive change, the full section, marked up for changes, has been included in the draft ED – this applies primarily to the sections on consolidation, third party payments, external assistance and extraordinary items. Staff is of the view that this is necessary to allow readers to get a feel for the extent of the proposed amendments and assess whether the revisions hold together.
9. Consistent with the approach adopted in ED 56, an executive summary and a section identifying the objectives of this draft ED have been included, but are not shown in mark-up.

Specific Matters for Comment

10. At its June 2015 meeting the IPSASB directed that documentation supporting issue of the ED is to seek input on whether additional requirements and/or encouragements based on aspects of recently issued IPSASs and RPGs should be included in Part 1 or Part 2 of the IPSAS in the future.
11. As a reference point for those Cash Basis adopters who may transition to the accrual basis, staff has added to the draft ED an Appendix (Appendix 6) which identifies the accrual based IPSASs and Recommended Practice Guidelines currently on issue. Staff have included a specific matter for comment (SMC) which refers to that Appendix, and seeks views on whether requirements or guidance drawn from any of the IPSASs or RPGs should be included as additional requirements or encouragements in the Cash Basis IPSAS in the future and, if so, which requirements or guidance.
12. Staff propose that during the course of its review of the draft ED at this meeting, the IPSASB alert staff to any additional SMCs that should be included in the ED for review at the next meeting.

Matter(s) for Consideration

1. The IPSASB is requested **to indicate** whether it **supports** the structure of the Exposure Draft proposed by staff and provide directions for its revision or further development.

The Conceptual Framework

13. The draft ED proposes amendments to the text of the Cash Basis IPSAS to refer to the objectives of financial reporting and the qualitative characteristics (QCs) as identified and defined in the Conceptual Framework - for example, amendments are proposed to the introductory paragraphs of the IPSAS and to the explanation of materiality (paragraph 1.3.1) and the role of the QCs in selection of accounting policies (paragraph 1.3.32).
14. At its June 2015 meeting, the IPSASB agreed to delete Appendix A, *Qualitative Characteristics of Financial Reporting*, from IPSAS 1, *Presentation of Financial Statements*. Appendix A of IPSAS 1 will not be replaced with a new summary of the QCs; rather users of IPSASs will refer to the explanation of the QCs in the Conceptual Framework.
15. This draft of the ED proposing revisions to the Cash Basis IPSAS retains and updates the summary of the QCs in Appendix 4 of the Cash Basis IPSAS. This is consistent with the view that the Cash Basis IPSAS is in the nature of a stand alone IPSASs and, to the extent possible, is to be retained as such. The original sequencing of the QCs in Appendix 4 has been retained as far as possible – consistent with the objective of making only necessary changes. In some cases, this sequence differs from the sequence in which they are addressed in the Framework itself. Staff is of the view that this does not present a problem given that the Conceptual Framework explains that each QC has similar weighting.

Government Business Enterprises

16. The definition of GBE's and supporting explanation has been deleted from the draft ED. It has been replaced by the characteristics of the public sector entities to which IPSASs are designed to apply. This is consistent with amendments currently proposed for the accrual IPSASs by Exposure Draft ED 56 *Applicability of IPSASs* (issued July 2015). To break the link to old terminology (and definitions), the term GBE has been replaced by terms such as government trading enterprise or crown corporation throughout the text of the draft ED.

Some drafting issues

17. Some amendments to better align terminology used in the Cash Basis IPSAS with contemporary accrual IPSASs have been processed in the draft ED – for example the term *financial reporting entity* currently used in the Cash Basis IPSAS has been replaced with *reporting entity* or *economic entity*. The term *general purpose financial statements* (GPFs) is used interchangeably with *financial statements* in this IPSAS and text has been added to make that explicit
18. However, some drafting amendments have not been processed in the draft ED. The authoritative black letter requirements of the Cash Basis IPSAS uses the term “should”, for example:

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

19. The term “shall” (rather than should) is used in current accrual IPSASs. The draft ED does not replaced “should” with “shall” in its black letter requirements – just in case the different terminology

may be interpreted as signaling more than simply an editorial amendment. Staff is of the view that this editorial type change is better processed as the final revised IPSAS is agreed.

Appendices – Illustrations of application of the requirements (Part 1) and encouragements (Part 2)

20. The relevant Appendices to Part 1 of the IPSAS have been revised to reflect removal of certain requirements related to consolidation, external assistance and third party payments. (The illustration of Government A in Appendix 1 continues to reflect the consolidated financial statements of a whole-of-government – the approach encouraged in Part 2 of the IPSAS.)
21. The relevant Appendices to Part 2 have been amended to reflect the removal of the encouragement to disclose extraordinary items (no longer required or encouraged by accrual IPSASs), and the removal of certain of the encouraged disclosures about external assistance (to focus more narrowly on external assistance in the form of cash or third party payments and undrawn assistance). However, they have not been updated to reflect that some of the requirements to disclose information about external assistance and third party payments in Part 1 are now encouragements in Part 2. At the June 2015 meeting, the IPSASB agreed that it would discuss further at this (September) meeting whether some or all of the encouraged disclosures included in the draft ED should be deleted or retained. Staff intends that any update to the illustrations in Appendices to Part 2 be made following the IPSASBs discussion at this meeting.

Matter(s) for Consideration

2. The IPSASB is requested to **note** the drafting and other matters identified above and to indicate whether it supports the approach to dealing with them proposed by staff and to provide directions for revision or further development.

Issues – Introductory Paragraphs to Part 1 of the Cash Basis IPSAS

22. The introductory paragraphs of the IPSAS have been revised to refer to the objectives of financial reporting as identified in the *“The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”* (the Conceptual Framework) and to explain that:
 - (i) Adoption of the Cash Basis IPSAS is a step on the path to adoption of the accrual basis IPSASs, rather than an end in itself;
 - (ii) The revisions to the Cash Basis IPSAS proposed by this project are directed at removing major obstacles to adoption the Cash Basis IPSAS; and
 - (iii) The role of the encouraged disclosures in Part 2 of the IPSAS is to support an entity’s transition to compliance with the accrual basis IPSASs.
23. The role of Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities* (Third Edition January 2011) in supporting the transition to the accrual basis of financial reporting is also noted in introductory paragraphs to both Part 1 and Part 2. Whether it is necessary in both places is questionable, but it has been included in the draft ED to reinforce the role intended for the Cash Basis IPSAS. (Staff notes that if changes proposed for the Cash Basis IPSAS as part of this project are accepted, there will be a need to revisit and, as appropriate, update Study 14 at some time in the future.)
24. The role of the Cash Basis IPSAS in supporting the transition to adoption of the accrual IPSASs is also referred to at appropriate points in the text of the draft ED and explained in additional proposed

subsections of Part 2.2 of the IPSAS “*Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting*”.

Drafting

25. At the time of issue of the Cash Basis IPSAS, the paragraphs that made up the “Objective” section of IPSASs were established as introductory paragraphs. The current IPSASs include the Objective section as part of the Standard itself (and number sections and paragraphs accordingly). Staff do not propose this change in format be made in the ED – because that would involve a change in section and paragraph numbers which could make it awkward for readers to cross reference to paragraphs that had, and had not, changed.

Matter(s) for Consideration

3. The IPSASB is requested **to review** the introductory paragraphs to Part 1 of the IPSAS and approve the amendments proposed by staff or provide directions for their further development.

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

Current requirements

26. The Cash Basis IPSAS (paragraphs 1.6.5 to 1.6.8) currently 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.

Proposed amendments

Consolidated Financial Statements

27. As directed by the IPSASB at its June 2015 meeting, the requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities has been removed from Part 1 of the IPSAS and recast as an encouragement in Part 2. Part 1 continues to specify the accounting procedures that are to be adopted when consolidation financial statements are prepared. Part 1 also requires that the term consolidated financial statements only be applied to statements that reflect “full” consolidation as encouraged in Part 2, and that certain disclosures about the composition of the group entity and changes therein be made.
28. Part 2 encourages controlling entities that do not consolidate all controlled entities, to prepare consolidated financial statements for an economic entity that reflects the budget sector, the general government sector (GGS) or other representation of core government activities. Part 1 of the IPSAS requires that such consolidated financial statements be identified by a term that best describes the economic entity they reflect.

Economic Entity

29. Economic entity is defined in paragraph 1.3.1 of Section 1 of the Cash Basis IPSAS (without any supporting explanation) and is repeated in paragraph 1.6.1. Paragraph 1.6.1 starts the section on consolidation. Paragraphs 1.6.2 to 1.6.4 include an explanation of economic entity. Staff suspects the duplication of the definition and the positioning of the additional explanatory paragraphs in section 6 rather than Section 1 reflects the progressive “build” of the IPSAS. Staff have revised the definition of economic entity to better align with IPSAS 35, *Consolidated Financial Statements*, added a commentary paragraph from IPSAS 35 (paragraph 17 of IPSAS 35) and repositioned the commentary paragraphs 1.6.2 – 1.6.4 to follow the first time the definition is expressed. The repositioning on 1.6.2 -1.6.4 has not been shown in mark-up in the draft ED because there is no change in the text of those paragraphs.

Amendments for IPSASs 34, Separate financial statements, 35, Consolidated Financial Statements and 38, Disclosure of Interests in other entities

30. Key definitions, including that of *consolidated financial statements*, *control of an entity*, and *economic entity* have been revised to ensure they do not conflict with IPSAS 35. The existing encouraged disclosures in Part 2 have also been revised where necessary to better align with the equivalent disclosures in IPSASs 34, 35 and 38.

Control

31. The Cash Basis IPSAS currently on issue includes in Appendix 5 *Establishing Control of Another Entity for Financial Reporting Purposes*, paragraphs 28 through 42 of the old IPSAS 6. The definition and explanation of control that was in IPSAS 6 has been substantially restructured and extended in IPSAS 35, it encompasses text of IPSAS 35 itself and extensive application guidance (AG). Appendix 5 of the ED has been revised – it is now drawn from the text of IPSAS 35. Staff is uncomfortable about attempting to unpick what is an integrated and complex AG. Consequently, paragraphs from the AG are not included except for those dealing with regulatory control and economic dependence – matters which are highlighted in the current Appendix 5.

Disclosures

32. Part 2 of the Cash Basis IPSAS encourages the disclosure of information about such matters as the proportion of ownership of a controlled entity, the names of entities where control is less than or more than 50% in certain circumstances, and the basis of accounting for controlled entities when consolidated financial statements are not prepared. These disclosures have been updated to reflect as far as possible the equivalent disclosures in IPSAS 34, 35 and 38. The disclosures required by IPSAS 34, 35 and 38 are, of course, far more extensive than those included in the Cash Basis IPSAS. Consistent with the limited scope of this project, additional disclosures have not been added – rather the existing disclosures merely updated.
33. At the June 2015 meeting, members agreed that “housekeeping” type amendments are to be made to ensure that requirements and encouragements in this Standard are not contrary to those of the equivalent accrual IPSASs, except where such differences are appropriate to reflect adoption of the cash basis. IPSAS 35 requires the consolidation of all controlled entities with some exemptions – exemptions that differ in some respects from those identified in the Cash Basis IPSAS. In an attempt to ensure that the Cash Basis IPSAS does not (even by default) encourage controlling entities to prepare “full” consolidated financial statements in circumstances identified as not necessary by IPSAS 35, exemptions from consolidation reflective of those in IPSAS 35 have been identified in Part 2 of the IPSAS. Some of the exemptions identified in Part 2 may be expressed more authoritatively than one might normally expect in an encouragement section, but staff is of the view that this is justified in these circumstances. (*Boxed text following paragraph 2.1.42 of Part 2 of the draft ED (see Agenda item 3.2(b)), identifies the exemptions from consolidation specified in Part 1 of the Cash Basis IPSAS and indicates how they are dealt with in the draft ED.*)

Transitional Provisions

34. Staff has retained in this draft ED, the transitional provision that provide relief for three-years from the requirement to eliminate all cash balances and transactions between entities within the economic entity – see below.
- 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.*
35. The retention or otherwise of the transitional provision was not discussed at the last meeting. Staff is of the view that there is a case that retention of the transitional provisions will further support entities wishing to claim compliance with this IPSAS by providing some additional time to upgrade

data collection and processing systems to generate information necessary to achieve full compliance with the Standard. This transitional provision parallels that in IPSAS 33.

Basis for Conclusions

36. A Basis for Conclusions (BC) has been added to Part 1 and Part 2 of the draft ED to explain the amendments to consolidation requirements and encouragements, and reasons therefore. There is in the BCs of Part 1 and Part 2 some overlap of the explanation of the reasons for, and consequences of, the change from requirement to encouragement. This is mainly because some text that should sit in the BC to Part 2 has been included in Part 1. While such repetition may be removed from the final revised IPSAS when approved (particularly if the BCs of Part 1 and Part 2 are brought together to form a single BC for the IPSAS), staff is of the view that it may be useful to include it in the ED to assist readers as they move through what is a lengthy document.

Matter(s) for Consideration

4. The IPSASB is requested **to review** and approve or otherwise the proposed amendments to the consolidation sections of Part 1 and Part 2 of the draft ED and/or provide directions for revision and further development.

4. Third Party Payments (Cash Basis IPSAS Part 1 paragraphs 1.3.24 — 1.3.29)

37. The Cash Basis IPSAS currently requires that the disclosure of third party payments be made in a separate column on the face of the statement of cash receipts and payments – see extract 1 below.

1. Extract. Current Requirements for 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.

38. Consistent with the directions of the IPSASB at the June 2015 meeting:
- (i) The requirement in 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 has been deleted from Part 1 and recast as an encouragement in Part 2 of the IPSAS, with one exception as noted below; and
 - (ii) The requirement 1.3.24(a) to disclose information about payments made by third parties which are part of the economic entity to which the reporting entity belongs has been retained in Part 1 of the IPSAS for this draft of the ED.

Exception – disclosure in a separate column on the face of the statement of cash receipts and payments

39. The draft ED proposes that entities be encouraged to disclose information about payments made by third parties which are not part of the economic entity to which the reporting entity belongs in notes to the financial statements, rather than on the face of the statements. This is because, for many governments and other public sector entities, third party payments will comprise external assistance or assistance from NGOs or other parties. 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 some other third party payments. In these circumstances, staff is of the view that disclosure in a separate column on the face of the financial statements is not justified. However, the disclosure of third party payments in notes to the financial statements may be justified on the grounds that it provides additional information about the resourcing of the entity, and this is useful for accountability and decision making purposes. It may also be argued that it is consistent with a build towards the accrual basis of accounting and financial reporting — though disclosure of the benefits to the entity in the form of the goods or services that result from such third payments may sit better with entities transitioning to the accrual basis.
40. For government departments or agencies that are reporting entities, payments by third parties which are part of the same economic entity will comprise amounts paid by a central agency or other government department or government controlled entity. Consequently, staff is of the view that information about amounts paid for goods and services by third parties which are part of the economic entity to which the reporting entity belongs is likely to be readily accessible and substantially complete. Therefore, disclosure of this information in a separate column on the face of the statement of cash receipts and payments can be justified. This should ensure that the form of payment (for example, whether the cash is provided by a central agency directly to the recipient reporting entity for the acquisition of goods or services or is provided to the supplier of those goods or services) does not determine whether it is reported in the Statement of Cash Receipts and Payments.

Matter(s) for Consideration

5. The IPSASB is requested **to review** and approve or otherwise the proposed amendments to the third party payments sections of Part 1 and Part 2 of the draft ED and/or provide directions for revision and further development.

Recipients of External Assistance (Cash Basis IPSAS Part 1 paragraphs 1.10.1—1.10.24)

41. Part 1 of the Cash Basis IPSAS requires the separate disclosure of information about total external assistance received as cash on the face of the statement of cash receipts and payments. It also requires the disclosure of the amount of assistance received in the form of third party payments in a separate column on the face of the statement of cash receipts and payments. Information about such matters as assistance received by way of loans and grants (and changes therein), the significant classes of providers and amounts of undrawn assistance is required to be disclosed on the face of the Statement or in notes. Further disclosures are encouraged in Part 2 of the IPSAS.
42. At the June 2015 meeting, Members expressed different views about whether the requirements and encouragements for disclosure of the details of external assistance received in the form of cash or

third party payments should be retained in the IPSAS. Concerns expressed by Members included that the information necessary to fully satisfy the required and encouraged disclosures is often not available to recipients as needed, and the usefulness for accountability and decision making purposes of presenting the resulting incomplete information in the financial statements is questionable. Some members also expressed concern that many of the disclosures were special purpose in nature and more detailed and onerous than in the existing accrual IPSASs, and this is not consistent with either the general purpose focus of IPSASs or the role of the Cash Basis IPSAS as supporting an entity's transition to compliance with the accrual basis IPSASs.

43. However, it was agreed that the draft ED prepared for consideration at this (September) meeting should include encouragements to disclose certain information about external assistance. Whether or not such encouragements would be retained in the ED that was issued for comment would be discussed further at this meeting.
44. Consistent with the directions of the IPSASB at the June 2015 meeting, the draft ED proposes that requirements to disclose information about external assistance be removed from Part 1 of the IPSAS and recast as encouragements in Part 2. The current requirements and the current encouragements in Part 2 of the IPSAS have been reduced to focus on disclosure of information about external assistance received in the form of cash and third party payments, and undrawn assistance available. Commentary paragraph 1.3.18 has been added to Part 1 to explain that for reporting entities in developing economies, the identification of external assistance received as cash, and the use of that assistance, as a separate class is likely to be relevant for accountability and decision making purposes.
45. Just which of the required and encouraged disclosures should be deleted and which retained to reflect the focus intended by the IPSASB was not discussed in great detail at the June meeting. In an attempt to reflect the focus intended, requirements to disclose information about such matters as *debt rescheduled or cancelled* and instances of *non compliance with significant terms and conditions* (paras 1.10.23 – 1.10.27) have been removed from Part 1 and not included as encouraged disclosures in Part 2. (To identify the amendments to Part 1, all of Section 10 of Part 1 has been deleted and is shown in mark-up in the draft ED at agenda item 2.2(a). For Members' information, Attachment 1 to this Issues Paper identifies by mark-up the requirements of Part 1 that have not been recast as encouragements in Part 2.)
46. The draft ED also proposes that existing encouraged disclosures in Part 2 dealing with such matters as the following be deleted: *terms and conditions of external assistance agreement, the amount of outstanding external assistance loans and their repayment terms and conditions, performance conditions guaranteed by third parties, and the identity of each provider of assistance and amount provided*. These are shown in mark-up in Part 2 of the draft ED (see paragraphs 2.1.76 to 2.1.89 of Part 2 at Agenda item 2.2(b)):

Disclose in a separate column on the face of the statement of cash receipts and payments.

47. Part 1 required that external assistance in the form of third party payments be disclosed as a separate column on the face of the statement of cash receipts and payments. As noted above, certain of the requirements to disclose information about external assistance in the form of third party payments in Part 1 of the IPSAS have been recast as encouragements in Part 2. However, the draft ED proposes that those encouraged disclosures be made in notes to the financial statements, rather than as a separate column in the statement of cash receipts and payments. Staff

is of the view that encouraging disclosure of such assistance as a separate column in the statement of cash receipts and payments is not justified given the concerns raised by many constituents, including those that provided input to the IPSASB's Task Force and in submissions from the ICGFM, about the lack of access to the information necessary to satisfy the disclosure requirements and the inability to verify the completeness and accuracy of information disclosed. Staff is concerned that disclosure in a separate column on the face of the statement of cash receipts and payments may support an interpretation or expectation that one can add external assistance received in the form of cash and in the form of third party payments as presented in that separate column to generate a useful measure of the external assistance resource flows for the period. For many jurisdictions such an interpretation is likely to be incorrect.

Receipt of goods and services (paragraphs 1.10.21 and 1.10.22)

48. Part 2 of the Cash Basis IPSAS (at paragraph 2.1.90) encourages an entity to disclose in notes to the financial statements, the value of external assistance received in the form of goods or services. Paragraph 1.10.21 requires that where an entity elects to make such disclosures, it should also disclose in the notes the basis on which that value is determined. Paragraph 1.10.22 draws out the implications of such a requirement (see extract 2 below).

2. Extract from Cash Basis IPSAS 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.

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.

49. Subject to the IPSASB's discussion at this meeting, encouragements to disclose information about external assistance, including that encouraged in paragraph 2.1.90, may be deleted from the IPSAS and the relevance of paragraphs 1.10.21 and 1.10.22 as currently drafted would, at best, be unclear. However, staff is of the view that the requirements and guidance provided in paragraphs 1.10.21 and 1.10.22 can apply more broadly to goods and services that may be disclosed by entities that are building their note disclosures as they transition to the accrual basis of financial reporting. Consequently, the draft ED proposes that paragraphs 1.10.21 and 1.10.22 be revised to encompass goods and services broadly, not just those received under external assistance agreements.

Additional guidance

50. The ICGFM submission considered at the June 2015 meeting proposed 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. At the June meeting, the IPSASB agreed that staff would seek input from the ICGFM regarding the potential for inclusion of such guidance in Part 2 of the ED. Staff have not yet contacted the ICGFM on this matter, but will do so following the outcome of IPSASB's deliberations on what, if any, disclosures about external assistance are to be retained in Part 2 of the IPSAS.

Matter(s) for Consideration

6. The IPSASB is requested **to review** and approve or otherwise the proposed amendments to the external assistance sections of Part 1 and Part 2 of the draft ED and/or provide directions for revision and further development.

“Housekeeping” revisions to Part 1 and Part 2

51. At its June 2015 meeting the IPSASB agreed that “housekeeping” type revisions included in this limited scope review of the Cash Basis IPSAS should be narrowly focused. In particular, they should be directed at ensuring that the existing requirements in Part 1 of the Cash Basis IPSAS are not inconsistent with the requirements in accrual IPSASs currently on issue that deal with the same matters, except where those differences reflect the narrower focus of the cash basis.
52. In many cases, the Cash Basis IPSAS is less prescriptive in its requirements and includes less detailed explanation than the equivalent current accrual IPSASs. However, in many of these cases the requirements and encouragements of the Cash Basis IPSAS are not inconsistent with their accrual counterparts – just less prescriptive and, arguably, open to more interpretation.
53. Staff has included in the draft ED, proposed amendments to Parts 1 and 2 of the Cash Basis IPSAS that it considers necessary to remove conflicts with the equivalent accrual IPSASs, consistent with a narrow focus for “housekeeping” updates as directed by the IPSASB. In a number of cases, whether amendments are necessary has involved some judgement, in such cases staff has attempted to minimize changes.
54. The following paragraphs identify some areas that troubled staff in its housekeeping update of Part 1 of the IPSAS.

Housekeeping Issues Part 1 of the IPSAS: 1.5 Correction of Errors and 1.7 Foreign Currency

55. The requirements for, and supporting explanation of, correction of errors and foreign currency included in Part 1 of the IPSAS were drawn from the 2003 versions of what are now IPSAS 3 “*Accounting Policies, Changes in Accounting Estimates and Errors*” and IPSAS 4 “*The Effects Of Changes In Foreign Exchange Rates*”¹. (The current version of IPSAS 3 was issued in 2006 and last updated in 2011. The current version of IPSAS 4 was issued in 2008 and last updated in 2011.) Given the objectives of this limited scope review, determining the extent of changes that should be made to the requirements and supporting explanation in Part 1 of the Cash Basis IPSAS to reflect the updated versions of these IPSASs has been difficult.

¹ These IPSASs were then titled: IPSAS 3—*Net Surplus Or Deficit For The Period, Fundamental Errors And Changes In Accounting Policies, and IPSAS 4—The Effects Of Changes In Foreign Exchange Rates*

Correction of errors (Cash Basis IPSAS Part 1, paragraphs 1.5.1 – 1.5.5)

56. 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) under the current version of 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 the amounts of any adjustment are to be made.
57. However, the current IPSAS 3 does clarify the adjustments that are to be made if the error occurred before the earliest prior period presented. In addition, the current version of IPSAS 3 defines and uses the terms “prior period errors” rather than simply “errors”, requires that the amount of the error for each line item is to 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 detailed.
58. The draft ED proposes only minor amendments to the text of the Cash Basis IPSAS. These amendments are intended to link to the terminology and explanation used in the current IPSAS 3, without changing the requirements of the Cash Basis IPSAS in any substantial way.
59. Staff did contemplate amending Part 1 of the IPSAS to include additional requirements and definitions to more fully reflect IPSAS 3. However, it became quickly apparent in early rough drafting that, even with some substantial summarizing and a refocus on cash, the amendments would be quite extensive. Staff was concerned that the inclusion of additional requirements and definitions may have some unintended effects that could introduce additional obstacles to adoption of the IPSAS – which is contrary to the objective of this project. Staff was also concerned that the more extensive amendments was outside the limited scope of this project as intended by the IPSASB, and would be better dealt with when exploring implications for the Cash Basis IPSAS of any updates to IPSAS 3 in the future.
60. As input for the IPSASB’s further deliberations on this matter, Staff has included in Attachment 2 to this Issues Paper an extract of IPSAS 3 which identifies the definitions and disclosure requirements that will come into play if the requirements of Part 1 of the Cash Basis IPSAS are to be updated to more closely reflect the current IPSAS 3.

Foreign Currency (Cash Basis IPSAS Part 1, paragraphs 1.7.1 – 1.7.8)

61. Updating the Cash Basis IPSAS for the current IPSAS 4 involves similar judgements about what amendments constitute “housekeeping” and should be processed to ensure that the requirements of the Cash Basis IPSAS are not contrary to those in the equivalent accrual IPSAS.
62. The major revisions to IPSAS 4 likely to impact the Cash Basis IPSAS include (a) the introduction of additional definitions (such as functional currency, presentation currency and spot exchange rate); (b) their application to cash flows arising from transactions in a foreign currency during the period and cash balances held in foreign currencies at reporting date; and (c) additional disclosure requirements.
63. IPSAS 4 requires a foreign currency transaction to be recorded on initial recognition in the functional currency (the currency of the primary economy in which the entity operates) when the foreign currency transaction occurs. The Cash Basis requires initial recognition in the reporting currency. IPSAS 4 includes quite detailed guidance on how the functional currency is to be

determined – some of that guidance relates to currencies that influence prices and values of resource flows that will be recognized in the accrual basis, but not the cash basis. IPSAS 4 permits the currency in which the financial statements are presented (the presentation currency) to be any currency, and includes requirements and guidance on translating from the functional currency to the presentation currency if they are different. IPSAS 4 also 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.

64. Amendments to Part 1 of the Cash Basis IPSAS to fully embrace the requirements and guidance in IPSAS4 are likely to be substantial. Attachment 3 to this issues paper is a work-in-progress, but it serves as a rough and incomplete indication of the types of changes that might be necessary to embrace the substantive requirements of IPSAS 4 as they apply to the cash basis. While the different reporting processes and requirements in IPSAS 4 are a substantial enhancement on the guidance in the Cash Basis IPSAS, staff is not convinced that revising the Cash Basis IPSAS to fully align with them sits comfortably with the IPSASB's objective for this limited scope review. Staff is of the view that amendments to fully align with IPSAS 4 go beyond a housekeeping update.
65. The requirements in the Cash Basis IPSAS are contrary to those in IPSAS 4 in that the Cash Basis IPSAS (paragraph 1.7.2) requires that cash receipts and payments arising from transactions in a foreign currency should initially be recorded in an entity's reporting currency, rather than its functional currency (as required by IPSAS 4). The draft ED refocuses the foreign currency requirements and supporting commentary on translation of the foreign currency amounts for incorporation in the statement of cash receipts and payments, rather than on translation for initial recording. A definition of presentation currency reflecting that in IPSAS 4 has been added and other definitions, disclosure requirements and commentary paragraphs updated. The currency for initial recording of foreign currency amounts is not addressed. This is an attempt to minimize changes to the foreign currency requirements but at the same time remove the overt conflict between the Cash Basis IPSAS and IPSAS 4 (without introducing substantial new requirements).
66. This of course is a superficial fix until such time as the foreign currency components are revisited to deal with the substantial difference in the requirements of the Cash Basis IPSAS and IPSAS 4. However, it does allow entities transitioning to the accrual basis to progressively adopt the processes that are reflected in IPSAS 4 while still claiming compliance with the Cash Basis IPSAS. It also fits with the narrow scope review intended by the IPSASB for this project and, hopefully, avoids any unintended consequences that may represent obstacles to adoption. The inclusion of an SMC in the ED seeking constituent views on whether more substantial revisions to the foreign currency provisions of the Cash Basis IPSASB is necessary would draw views on the importance of this matter and its priority for inclusion in any future review of the IPSAS.
67. If members are not convinced with the approach in the draft ED and are of the view that a more substantial update should be undertaken as part of this project, staff will continue developing the more extensive revisions noted in Attachment 3 to align more fully with the current IPSAS. Additional consequential amendments to the section on Financial Reporting in Hyperinflationary Economies in Part 2 of the IPSAS can also be explored.

Matter(s) for Consideration

7. The IPSASB is requested **to review** and approve or otherwise the proposed amendments to the correction of errors and foreign currency sections of Part 1 of the draft ED and/or provide directions for revision and further development.

Housekeeping revisions to Part 2 – Encouraged Disclosures

68. The following provides a broad outline of the housekeeping revisions the draft ED proposes be made to Part 2 of the IPSAS.

Definitions (Paragraph 2.1.1)

69. Paragraph 2.1.1 includes a listing of defined terms necessary to support 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 IPSAS². 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 is not specifically encouraged. Consequently, the definition of *financial asset* has been removed from the listing of defined terms.

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

70. 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. These encouragements are drawn from the requirements of IPSASs which were on issue when the Cash Basis IPSAS was issued (IPSAS 1 "*Presentation of Financial Statements*" (issued in 2000), IPSAS 2 *Cash Flow Statements* (issued in 2000) and IPSAS 3, "*Accounting Policies, Changes in Accounting Estimates and Errors*" (issued in 2000)). These IPSASs no longer require or encourage the disclosure of extraordinary items. Consequently, the draft ED proposes that the encouragement to disclose this item be removed.

Broad references to accrual IPSASs and the transition to the accrual basis

71. The Introduction to Part 2 of the IPSAS explains that Part 2 has been prepared to support the transition to the accrual basis. It also explains that reporting entities should plot their path to adoption of the accrual IPSASs, and commence the process of building the information necessary to comply with those IPSASs.
72. Acknowledgement of IPSAS 33 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards* and its role in supporting the transition to adoption of the accrual IPSASs is explained in an additional subsection of Part 2.2³ of the Cash Basis IPSAS (see paragraphs 2.2.7 to 2.2.10). The draft ED also proposes that an additional Appendix 6 be added to the Cash Basis IPSAS to identify all the accrual IPSASs on issue and includes a footnote which cross references to the Appendix in IPSAS 33 which outlines the transitional provisions and their impact.

² 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*".

³ Cash Basis IPSAS Part 2, Section 2 "*Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting*"

73. Amendments have been made to paragraphs 2.1.33 to 2.1.36 to acknowledge that IPSASs issued after issue of the Cash Basis IPSAS can provide useful guidance to entities wishing to disclose information about assets, liabilities revenues and expenses. These paragraphs also acknowledge the issue of Recommended Practice Guidelines.
74. Amendments have been made to paragraphs 2. 1. 49 and 2.1.50 to acknowledge the issue of, and align with terminology and explanations adopted in, IPSAS 36 *Investments in Associates and Joint Ventures* (issued in January 2015) and IPSAS 37 *Joint Arrangements* (issued in January 2015).

Matter(s) for Consideration

8. The IPSASB is requested to review and approve or otherwise the proposed “housekeeping” amendments to Part 2 of the Cash Basis IPSAS and identify any additional aspects of the Cash Basis IPSAS that should be updated as part of the house keeping review.

Future Meetings

75. The draft ED will be revised to reflect the IPSASB’s directions for review and approval at a future meeting.

ATTACHMENT 1

This attachment indicates by mark-up the requirements for External Assistance included in Part 1 of the Cash Basis IPSAS that have been deleted from Part 1 and not been included as encouraged disclosures in Part 2.

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.

~~*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 ~~their application in this IPSAS~~ 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 ~~above 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.

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.~~

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.

External Assistance Received

~~1.10.8 The entity is encouraged to should disclose separately in notes to the financial statements on the face of the Statement of Cash Receipts and Payments; - total external assistance received in cash during the period showing separately~~

~~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 whether as advised by the third party or otherwise verified by the recipient, 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 the total amount of 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.~~

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 ~~can provide useful information about~~ 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 ~~as defined. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance~~ External assistance in the form of payments paid by third parties will ~~should only be disclosed when the entity 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. Consequently, 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. As appropriate, the notes should advise users that such disclosures may not encompass all such third party payments. 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 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.~~

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 *where appropriate* :~~

- ~~(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 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.

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.~~

~~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.~~

~~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.~~

ATTACHMENT 2

Extract from IPSAS 3 –“Accounting Policies, Changes in Accounting Estimates and Errors”

(This extract identifies definitions and disclosure requirements relating to prior period errors included in IPSAS 3.)

Definitions

7. *Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*
- (a) *Was available when financial statements for those periods were authorized for issue; and*
 - (b) *Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

.....

Errors

46. *Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47 and 52).*
47. *Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:*
- (a) *Restating the comparative amounts for prior period(s) presented in which the error occurred; or*
 - (b) *If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.*

Limitations of Retrospective Restatement

48. *A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.*
49. *When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).*

- 50. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**
51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.
52. When it is impracticable to determine the amount of an error (e.g., a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities, and net assets/equity arising before that date. Paragraphs 55-58 provide guidance on when it is impracticable to correct an error for one or more prior periods.
53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

- 54. In applying paragraph 47, an entity shall disclose the following:**
- (a) The nature of the prior period error;**
 - (b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**
 - (c) The amount of the correction at the beginning of the earliest prior period presented; and**
 - (d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56-58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to re-create the information.
56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.
57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
- (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and

(b) Would have been available when the financial statements for that prior period were authorized for issue;

from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant, and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from government operations in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

ATTACHMENT 3

Overview of changes to the Cash Basis IPSAS to embrace the substantive requirements of IPSAS 4 “The Effects of Changes in Foreign Exchange Rates” (2008, updated 2011).

(Staff comment: This is a work in progress. It is incomplete and indicative only)

(a) 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.

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

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

Foreign currency is a currency other than the reporting functional currency of the a entity.

Functional currency is the currency of the primary economic environment in which the entity operates

Presentation Reporting currency is the currency used in which presenting the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery

Functional Currency and Presentation Currency

1.7.2 Governments and other public sector entities may receive cash from taxation, grants and assistance in domestic currency and/or in the currency of other countries (foreign currency) and have transactions that are denominated and settled in a foreign currency A public sector group reporting entity may comprise a number of individual entities some of which operate in different currencies.

1.7.3 The functional currency of a reporting entity is the currency in which it primarily generates and expends cash. In determining its functional currency governments and public sector entities will consider such matters as the currency:

(a) in which the proceeds of taxes, grants, assistance, fines, loans and funds generated from other activities, including from any of its trading activities are received;

(b) in which payments for goods and services are denominated and settled;

(c) that mainly influences labor, material, and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled); and

(d) of a foreign operation, and whether that operations functional currency is the same as the reporting entity.

1.7.4 When the above, and other, indicators of the functional currency are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions.

1.7.5 The presentation currency is the currency in which the financial statements are presented. For consolidated financial statements or group financial statements that present cash receipts, payments and balances for a budget, general government or other similar sector, it is likely that, in most cases, both the functional and presentation currency will be the domestic currency of the used in the country of the government.

1.7.6 In some cases, the functional currency of a foreign operation with a significant degree of autonomy may not be the same as the functional currency of its controlling entity. This may occur in the case of, for example,

government-owned foreign operations such as tourist offices, trade boards, and broadcasting operations which are established to operate independently and can have cash flows and hold cash balances substantially in the local currency of its operating environment.

1.7.7 An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions.

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.7.8 An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its cash receipts, cash payments and cash balances into the presentation currency.

1.7.9 For national or state/provincial governments, the presentation currency is normally determined by the ministry of finance (or similar authority), or established in legislation.

Reporting Foreign Currency Transactions in the Functional Currency

1.7.10 ~~1.7.2~~ *Cash receipts and payments arising from transactions in a foreign currency should be recorded **on initial recognition** in an entity's reporting currency by applying to the foreign currency amount the **spot** exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.*

1.7.11 ~~1.7.3~~ *Cash balances held in a foreign currency should be **translated reported** using the closing rate.*

1.7.124 *The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the **presentation (reporting)** currency and the foreign currency at the dates of the receipts and payments.*

1.7.13 An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.

1.7.14 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.

Use of a Presentation Currency Other than the Functional Currency

1.7.15 Cash receipts and payments shall be translated into the presentation currency at exchange rates at the dates of the cash flows.

1.7.16X Cash Balances shall be translated at the closing rate at the date of that statement of financial position

1.7.176 *When the **presentation (reporting)** currency is different from the **functional** currency ~~of the country in which the entity is domiciled~~, the **functional** currency and reason for using a different currency should be disclosed. The reason for any change in the **presentation (reporting)** currency should also be disclosed.*

1.7.18 Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency, receiving external assistance in the form 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 the reporting currency in which the financial statements are presented terms.

1.7.19 In preparing financial statements, each entity determines its functional currency and translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 1.7.10– 1.7.11.

This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its cash flows and cash balances into the presentation currency. This may occur when for example a whole of government consolidated financial statement or other group financial statements encompass individual entities with different functional currencies - the cash flows and cash balance of each entity are expressed in a common currency.

When the presentation (reporting) currency is different from the functional currency of the entity it translates its is domiciled.

- 1.7.208 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 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.

COVER PAGE OF ED

International Public Sector Accounting Standard

Proposed Amendments to the Cash Basis IPSAS: Financial Reporting Under the Cash Basis of Accounting

Draft Only for IPSASB review
(September 2015)

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

REQUEST FOR COMMENT

This Exposure Draft XX (ED XX), *Amendments to the Cash Basis IPSAS* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft (ED) may be modified in light of comments received before being issued in final form. **Comments are requested by Month date, 2016.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The primary objective of this ED is to remove major obstacles to the adoption of the Cash Basis IPSAS

Guide for Respondents

The IPSASB welcomes comments on all the changes proposed to the Cash Basis IPSAS. The IPSASB would particularly welcome comments on the matter for comment, which is provided below to facilitate the comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and include reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

Specific Matter for Comment

The IPSASB proposes to remove from Part 1 of the Cash Basis IPSAS certain requirements relating to the preparation of consolidated financial statements and the disclosure of information about external assistance and payments made by third parties which are not part of the economic entity to which the reporting entity belongs. Part 2 of the Cash Basis IPSAS encourages, but does not require, the preparation of consolidated financial statements and the disclosure of this information.

The IPSASB also proposes to clarify the role of the Cash Basis IPSAS in the IPSASB's standards setting strategy and make "housekeeping" amendments directed at ensuring that the requirements of the Cash Basis IPSAS are not contrary to those of the equivalent accrual IPSASs from which they were derived, unless intended to be so to reflect the cash basis focus in this Standard.

The removal of requirements relating to consolidation, external assistance and third party payments in Part 1 of the IPSAS are intended to overcome major obstacles to adoption of the IPSAS identified by preparers and public finance management experts in many jurisdictions. The amendments to Part 2 have been made to reinforce the role of the encouraged disclosures in supporting an entity's transition to compliance with the accrual basis IPSASs. The amendments are intended to establish a clearer transition path to adoption of the accrual IPSASs by ensuring that the encouraged disclosures are not contrary to the equivalent accrual IPSASs unless intended to be so to reflect the cash basis focus in this Standard.

Do you agree with the changes to the Cash Basis IPSAS proposed in this ED? If not, please provide your reasons.

Appendix 6 to this Standard identifies all accrual International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guides (RPGs) currently on issue. The IPSASB would also welcome your views on whether requirements or guidance drawn from any of these IPSASs or RPGs should be included as additional requirements or encouragements in the Cash Basis IPSAS in the future and, if so, which requirements or guidance.

Executive Summary

The IPSAS, *“Financial Reporting Under the Cash Basis of Accounting”* was issued in January 2003. It comprises two parts. Part 1 identifies the requirements that must be adopted by a reporting entity that wishes to claim its financial statements comply with the Standard. Part 2 identifies encouraged disclosures which provide additional information useful for accountability and decision making purposes and support those entities transitioning to the accrual basis of financial reporting. The IPSAS was updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007.

The IPSASB’s ongoing in-house monitoring of the adoption of IPSASs and input from preparers, auditors and many other constituents indicates that the Cash Basis IPSAS has not been widely adopted, and few jurisdictions prepare financial statements that fully comply with all requirements of the Standard. However, many respondents to the IPSASB’s strategy consultation in 2014 identified the need for the Cash Basis IPSAS to enhance financial reporting by governments in developing economies and as a basis for the transition to accrual basis, and expressed strong support for its retention within the suite of IPSASs.

The requirements for preparation of consolidated financial statements that consolidate all controlled entities and disclosure of information about external assistance and third party payments have been identified as major practical obstacles to full adoption of the Cash Basis IPSAS by many constituents and by an IPSASB Task Force which reported on operation of the IPSAS in 2010. The IPSASB actioned this limited scope project to propose amendments to overcome these obstacles to adoption of the IPSAS. Consistent with the objectives of this project, this Exposure Draft proposes that amendments be made to the Cash Basis IPSAS to remove from Part 1 of the IPSAS the requirement that:

- (a) Controlling entities prepare and present consolidated financial statements that consolidate all controlled entities. Part 1 of the IPSAS continues to specify the accounting procedures to be adopted when consolidation financial statements are prepared and includes requirements to disclose information that will enable users to identify the extent to which consolidated statements are presented. Part 2 of the IPSAS encourages controlling entities to prepare fully consolidated financial statements. Part 2 also encourages entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities and to transition to the accrual basis of financial reporting and adoption of the accrual IPSASs.
- (b) Reporting entities are to disclose in a separate column in the statement of cash receipts and payments the amount of payments made by third parties which are not part of the economic entity to which the reporting entity belongs. Part 2 of the IPSAS encourages the note disclosure of such information; and
- (c) Reporting entities disclose information about external assistance received during the reporting period and the amount of undrawn external assistance that is available to the entity. Part 2 of the IPSAS encourages disclosure of information about external assistance received as cash or in the form of third party payments, and the amount of undrawn assistance.

While amendments to these aspects of the Cash Basis IPSAS are substantial, readers should note that this project is not a full review of the Cash Basis IPSAS. It does not address all improvements to the Standard that the IPSASB or constituents may see as desirable. Such improvements may be considered

in future reviews of the Standard which the IPSASB intends to undertake periodically, or as any potential implications for the Cash Basis IPSAS are considered when amendments are made to existing accrual IPSASs or new accrual IPSASs are developed¹.

The IPSASB also determined that while only limited in scope, this Project should:

- (a) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than an end in itself; and
- (b) Make minor "housekeeping" type amendments to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in updated versions of accrual IPSASs from which they were derived, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard.

This Exposure Draft includes proposed amendments to clarify and deal with these matters.

¹ The IPSASB intends to consider as part of its ongoing standards development process, whether the Cash Basis IPSAS should be updated with additional requirements or encouragements as new accrual IPSAS are developed.

**FINANCIAL REPORTING UNDER THE
CASH BASIS OF ACCOUNTING
PROPOSED AMENDMENTS**

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STAFF COMMENT
***CONTENTS PAGE TO BE UPDATED FOLLOWING IPSASB DECISIONS IN
SEPTEMBER 2015***

OBJECTIVE OF THIS EXPOSURE DRAFT

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Objective of this Exposure Draft

The objectives of this ED are to propose amendments to the Cash Basis IPSAS to:

- (i) Reduce obstacles to the adoption of the Cash Basis IPSAS represented by the existing requirements dealing with consolidation, external assistance and third party payments. In particular, to recast the requirements in Part 1 of the IPSAS to prepare consolidated financial statements and disclose information about external assistance and third party payments as encouragements in Part 2 of the IPSAS;
- (ii) Ensure that requirements and encouragements in this Standard are not contrary to those of the equivalent accrual IPSASs, except where such differences are appropriate to reflect adoption of the cash basis; and
- (iii) Clarify the role of the Cash Basis IPSAS in the IPSASB's standards setting strategy. .

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

Amendments to the introductory paragraphs to Part 1 of the Cash Basis IPSAS: *Financial Reporting Under the Cash Basis of Accounting – Part 1: Requirements*

Amendments are made to reflect:

- (a) The objectives of financial reporting as specified in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (The Conceptual Framework)*; and
 - (b) The role of the Cash Basis IPSAS in the standards setting strategy of the International Public Sector Accounting Standards Board (IPSASB).
-

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.

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial statements (GPFs) and other general purpose financial reports (GPIFRs) for accountability and decision-making purposes. 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 general purpose financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

Role of the Cash Basis IPSAS

The IPSASB is of the view that the objectives of financial reporting can only be achieved by adoption of the accrual IPSASs. Consequently the IPSASB encourages governments and other public sector entities to present GPFs that comply with the requirements of the accrual IPSASs. However, the IPSASB appreciates that in some jurisdictions a transitional process may be necessary to achieve that end. The Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis. It is not intended as an end in itself. The role of the encouraged disclosures in Part 2 of the IPSAS is to support an entity’s transition to compliance with the accrual basis IPSASs.

Entities transitioning to the accrual basis are also encouraged to refer to IPSASB Study 14 “Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities” (Third Edition January 2011) which provides guidance on the paths that may be adopted in transitioning to the accrual basis.

Amendments to: 1.1 — Scope of the Requirements and 1.2 — The Cash Basis

Amendments are made to:

- (a) Identify in paragraph 1.1.2 the characteristics of the public sector entities to which IPSASs are designed to apply;
 - (b) Refer in paragraph 1.1.3 to users of general purpose financial statements that align more closely to those identified in the conceptual Framework and acknowledge that the terms *general purpose financial statements* and *financial statements* are used interchangeably in this ED; and
 - (c) Remove the definition and related explanation of Government Business Enterprises in paragraphs 1.1.5 to 1.1.7 and 1.2.1. These amendments reflect those proposed for the accrual IPSASs.
-

1.1 Scope of the Requirements

1.1.1 ***An 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 The IPSASs are designed to apply to public sector entities that:

- (a) Are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
- (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment; and,
- (c) Do not have a primary objective to make profits.

1.1.3 General purpose financial statements are those intended to primarily meet the needs of service recipients and resource providers ~~users~~ who are not in a position to demand reports tailored to meet their specific information needs and their representatives. Users of general purpose financial statements include citizens, taxpayers and ratepayers, members of the legislature (or similar body) and members of parliament (or a similar representative body), donor agencies, lenders, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report. For purposes of this Standard, the terms “general purpose financial statements” and “financial statements” are used interchangeably, unless specified otherwise.

1.1.43 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 or a budget sector or general government sector as encouraged in Part 2 of this Standard. 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 certain third parties be disclosed on the face of the statement of cash receipts and payments.

1.1.54 ***An entity whose general purpose 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.

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.~~

Amendments to: 1.3 — Presentation and Disclosure Requirements

Amendments are made to:

- (a) Update the definition of materiality in paragraph 1.3.1 to reflect that in the Conceptual Framework;
 - (b) Update the definition of economic entity in paragraph 1.3.1 to reflect that included in IPSAS 35, “Consolidated Financial Statements” (issued in January 2015);
 - (d) Include in this section at paragraphs 1.3.2 to 1.3.4 the explanation of economic entity formally included in Section 6 “Consolidated Financial Statements” of Part 1 of this Standard – the text of these paragraphs have not changed and are not identified by mark-up; and
 - (e) Include at paragraph 1.3.5 additional explanation included in IPSAS 35.
-

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 discharge of accountability by the entity, or the decisions ~~that or assessments of users~~ *made* on the basis of the *entity's financial statements prepared for that reporting period*. Materiality depends on *both the nature and amount or size of the item or error judged in the particular circumstances of omission or misstatement each entity*

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.

Economic Entity

1.63.2 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.

1.63.3 Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial reporting entity”, “consolidated entity” and “group”.

1.63.4 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.

1.3.5 The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements

Amendments to: *Financial Statements*

Amendments are made to paragraphs 1.3.6 and 1.3.9 (formerly 1.3.4 and 1.3.7) to reflect changes made to the requirements to disclose third party payments included in paragraph 1.3.24 of this Standard.

Financial Statements

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

- (a) A statement of cash receipts and payments which:**
 - (i) recognizes all cash receipts, cash payments and cash balances controlled by the entity; and**
 - (ii) separately identifies payments made by third parties that are part of the economic entity to which the reporting entity belongs 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~~'s 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.**

.....

1.3.97 Paragraph 1.3.24 of this Standard requires disclosure on the face of the statement of cash receipts and payments of certain payments made by third parties which are part of the economic entity to which the reporting entity belongs 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.

Amendments to: Information to be Presented in the Statement of Cash Receipts and Payments

The requirement to disclose information about external assistance has been removed from Part 1 of this Standard and recast as an encouragement in Part 2. Amendments are made to:

- (a) Acknowledge in new paragraph 1.3.18 that the classification of cash receipts and payments to identify the amount of external assistance received and used during the reporting period may be relevant to users; and
 - (b) Delete the observation in paragraph 1.3.19 that the disclosure of external assistance received in cash is required by paragraph 1.10.8.
-

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

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

[1.3.18 Section 2 defines external assistance and encourages the disclosure of certain information about external assistance received during the reporting period and the balance of undrawn external assistance available to the entity at reporting date. For many public sector reporting entities in developing economies, the classification of cash receipts and payments to identify the amount of external assistance received as cash and the use of that assistance is likely to be relevant for accountability and decision making purposes.](#)

Line items, headings and sub-totals

1.3.189 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.

Amendments to: *Payments by Third Parties on Behalf of the Entity*

The amendments are made to paragraphs 1.3.24 to 1.3.29 to remove from Part 1 of the Standard the requirement for disclosure of payments made by third parties which are not part of the economic entity to which the reporting entity belongs. Part 2 of this Standard encourages, but does not require, disclosure of payments by such third parties in particular circumstances.

Payments by third parties on behalf of the entity

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 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 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 1.3.24(b) above requires that an entity 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, albeit rare circumstances, 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 third party payment has been made by a government agency that operates primarily in a foreign jurisdiction and has not entity has not been formally advised the reporting entity 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.

Amendments to: *Accounting Policies and Explanatory Notes*

Amendments are made to paragraphs 1.3.32 and 1.3.33 to update the qualitative characteristics (QCs) of information included in general purpose financial statements to reflect the QCs identified in the Conceptual Framework.

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) *Complete;*
 - (ii) *is Neutral, that is, free from bias; and*
 - (iii) *Free from material errors-complete in all material respects.*
- (d) *Comparable;*
- (e) *Timely; and*
- (f) *Verifiable.*

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.

Amendments to: *Consistency of Presentation*

Amendments are made to paragraphs 1.4.13 and 1.4.15 to better align with the equivalent requirements and explanation in IPSAS 1 "*Presentation of Financial Statements*" (issued in 2006 and last updated in 2011).

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) *It is apparent, following a significant change in the nature of the operations of the entity or a review of its financial statements that another presentation or classification would be demonstrated that the change will result in a more appropriate presentation of events or transactions having regard to the criteria for the selection and application of accounting policies in paragraph 1.3.32; 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 provides information that is a faithful representation and is more relevant to users of the financial statement*, 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.

Amendments to: Identification of Financial Statements

Amendments are made to paragraphs 1.4.23 and 1.4.25 to refer to “*presentation currency*” rather than “*reporting currency*” to better align with the terminology used in IPSAS 4 “*The Effects of Changes in Foreign Exchange Rates*” (issued in April 2008 and last updated in October 2011) Section “1.7 Foreign Currency” of this Standard has also been amended to better align with IPSAS 4 currently on issue.

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 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 presentation~~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~~presentation~~ currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

Amendments to: **Correction of Errors**

Amendments are made to refer to paragraphs 1.5.2 and 1.5.3 to better align with the terminology used in IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors” (issued in December 2006 and last updated in October 2011).

1.5 Correction of Errors

- 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:*
- (a)** *The nature of the error that relates to a prior period;*
 - (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** Potential current period errors discovered in the current period are corrected before the financial statements are authorized for issue. 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 prior period 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.

Amendments to: *Consolidated Financial Statements*

The requirement in Part 1 of this Standard that controlling entities are to issue consolidated financial statements which consolidate all controlled entities is removed and recast as an encouragement in Part 2 of the Standard. Amendments are made to:

- (a) Paragraph 1.6.1 to align, as far as is appropriate for entities reporting under the cash basis, the definitions of *consolidated financial statements*, *control of an asset* and *economic entity* to the equivalent definitions in IPSAS 35 *Consolidated Financial Statements* (Issued January 2015);
- (b) Relocate paragraphs 1.6.2 – 1.6.4 to become paragraphs 1.3.2 – 1.3.4 of Section 3 *Presentation and Disclosure Requirements* of Part 1 of this Standard. The term *economic entity* is first defined in Section 3 of this Standard;
- (c) Delete paragraphs 1.6.5 to 1.6.8 which require that, with some specified exemptions, controlling entities are to issue consolidated financial statements which consolidate all controlled entities. They are replaced by new paragraphs as noted below.
- (d) Add new paragraphs 1.6.2 and 1.6.3 to require that:
 - a. The consolidation procedures identified in this Standard are to be applied in the preparation of consolidated financial statements as encouraged by Part 2 of this Standard; and
 - b. The term consolidated financial statements will only be used to identify financial statements that consolidate a controlling entity and its controlled entities as encouraged by paragraph 2.1.41 of Part 2 of this Standard;
- (e) Add new paragraphs 1.6.5 to 1.6.8, amend paragraphs 1.6.9 to 1.6.10 and delete paragraphs 1.6.12 to 1.6.15, to explain the revised consolidation requirements.
- (f) Add new Paragraph 1.6.15(b) to require disclosure of information about the controlled entities that are included in, and excluded from, the financial statements of an economic entity that does not include all controlled entities.

1.6 Consolidated Financial Statements

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 in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity.

Control of an entity An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other 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.*

~~***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.~~
- ~~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.~~
- 1.6.2 Where a controlling entity and one or more separate controlled entities prepare and present financial statements as if they are a single entity, the consolidation procedures identified in paragraph 1.6.11 and the disclosure requirements in paragraph 1.6.15 should be applied.
- 1.6.3 The consolidated financial statements of an economic entity should be identified by the term “consolidated financial statements” when, and only when, they include the controlling entity and all its controlled entities as identified in paragraph 2.1.41 of Part 2 of this Standard. In other cases, the consolidated financial statements of an economic entity should be identified by a term that clearly describes the classes or (characteristics) of controlled entities included in the consolidated financial statements and is readily understood.
- 1.6.49 Paragraph 1.3.1 of this Standard defines an economic entity. Paragraph 1.3.2 explains that for financial reporting purposes an “economic entity” is a group of entities comprising the controlling entity and any controlled entities. 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 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.
- 1.6.5 For accountability and decision making purposes, users of the financial statements of a government or other public sector entity will need information about the cash receipts, cash payments and cash balances of the controlling entity and all its controlled entities. Information about, the cash receipts, cash payments and cash balances of the controlling entity and sub-

- groups of its controlled entities such as those that form the budget sector, the general government sector (GGS) as defined in statistical bases of financial reporting or other representation of core government activities will also provide information useful for accountability and decision making purposes.
- 1.6.6 Governments and other public sector entities may control a large number of entities including government departments, agencies and government trading enterprises or crown corporations. The preparation of consolidated financial statements that consolidate a controlling entity and all its controlled entities can be a complex, resource intensive and time consuming process. At a practical level, the preparation of such consolidated financial statements may present significant obstacles for many governments and other public sector entities that would otherwise wish to comply with this Standard as a step on the transition to the accrual basis of accounting. This may be because of capacity constraints that limit the ability of an entity to identify all the entities it controls, collect and process data in a timely fashion from controlled entities, legislative or other requirements to present financial statements for a subgroup of controlled entities rather than for all controlled entities or for other reasons.
- 1.6.7 This Standard encourages (at paragraph 2.1.41), but does not require, controlling entities to prepare and present consolidated financial statements that encompass the controlling entity and all its controlled entities, with exceptions in certain defined circumstances. It sets out in Appendix 5 factors to be considered in assessing whether one entity controls another entity for financial reporting purpose. Paragraph 2.1.42 encourages a controlling entity that does not present financial statements that consolidated all controlled entities to present consolidated financial statements that present information about, for example, an economic entity that comprises entities that make up the budget sector, the GGS or other representation of core government activities as it transitions to the full accrual basis, and the preparation of fully consolidated financial statements. Paragraph 1.6.11 identifies the consolidation procedures that are to be applied in the preparation of any consolidated financial statements that are prepared in accordance with the encouragements in this Standard.
- 1.6.8 Paragraph 1.6.3 specifies that the term *consolidated financial statements* can only be used to describe financial statements that present a “full consolidation” of all controlled entities as identified in Part 2 of this Standard. The term used to describe consolidated financial statements that present information about an economic entity that does not include the controlling entity and all its controlled entities is a matter of professional judgement. To satisfy the requirements of paragraph 1.6.3, that judgment should be exercised in the context of the qualitative characteristics of financial reporting including that it be understandable and a faithful representation of the economic entity presented. For national, state/provincial or local governments that prepare consolidated financial statements as encouraged in Part 2 of this Standard, terms such as, for example, the financial statements of the budget sector or the general government sector may be appropriate. Similar terms may be adopted for government agencies which are controlling entities and prepare and present financial statements which consolidate some, but not all, controlled entities.
- 1.6.4~~9~~ Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the ~~encouragements in requirements of~~ paragraphs 2.1.41 and 2.1.42 of Part 2 of this Standard ~~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~~may consolidate the cash receipts, cash payments and cash balances of all the entities it controls ~~or a subgroup of those entities~~. 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.~~
- 1.6.1~~0~~4 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 consistent with the composition of the economic entity represented in the financial statements 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.~~
- ~~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

1.6.116 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.

- 1.6.1~~27~~ The consolidation procedures outlined in paragraph 1.6.1~~46~~ provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.
- 1.6.1~~38~~ 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 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~~ government trading enterprise or crown corporation 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 in the preparation of whole-of-government consolidated financial statements would result in understating the cash balance of the whole-of-government economic entity and overstating its cash payments. However, the transaction would not be eliminated in financial statements prepared for a group entity that, for example, represented a general government sector which excluded the trading enterprise or crown corporation.
- 1.6.1~~49~~ 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

1.6.1~~520~~ ***The following disclosures should be made in consolidated financial statements of an economic entity:***

(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) Where all controlled entities are not consolidated:

(i) The classes (or characteristics) of controlled entities that are included in, and excluded from, the group financial statements together with an explanation of the reason for the exclusion of any classes from the group accounts; and

(ii) Entities that have been added to, or removed from, those included in the group financial statements since presentation of the previous period's general purpose financial statements.

~~(a)(c)~~ The reasons for not consolidating a controlled entity.

Transitional Provisions

1.6.1~~624~~ 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.

Amendments to: *Foreign Currency*

Amendments are made to:

- (a) Paragraph 1.7.1 to align the definitions of *exchange differences*, *exchange rate*, and *foreign currency* with the definitions of these terms in IPSAS 4, *The Effects of Foreign Currency* (issued in April 2008 and last updated in October 2011) and introduce the *terms presentation currency* and *spot exchange rate* as used in IPSAS 4.
- (b) Paragraphs 1.7.2 to 1.7.8 to better align the wording of these paragraphs to equivalent paragraphs of IPSAS 4 and acknowledge that external assistance may be received in foreign currency – this was previously acknowledged in text that has been deleted from Part 1 of this Standard.

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.

Exchange difference is the difference resulting from translating a given reporting the same number of units of a foreign one currency in the reporting currency into another currency at different exchange rates.

Exchange rate is the ratio ~~for of~~ exchange ~~fore of~~ two currencies.

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

PresentationReporting currency is the currency ~~used in which presenting~~ the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery

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 incorporated in the Statement of Receipts and Payments~~ in an entity's ~~reporting presentation~~ currency by applying to the foreign currency amount the spot 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 translated 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 ~~presentation 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 ~~presentation 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 ~~presentation 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, [receiving external assistance in the form 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 [the reporting currency in which the reporting entity presents its financial statements.](#)
- 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 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.

Amendments to: *Effective Date of Sections 1 to 7 of Part 1 and Transitional Provisions*

Amendments are made to paragraphs 1.8.1 and 1.8.2 to acknowledge the revisions that have been proposed to Sections 1-7 of Part 1 of this Standard.

(Consistent with amendments proposed by this ED, requirements for elimination of cash balances and transactions between entities within the economic entity are now located in paragraph 1.6.11(a).)

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 ~~4~~ January 201X04. Earlier application is encouraged.

1.8.2 Requirements to prepare consolidated financial statements and to disclose information about external assistance and certain third party payments were removed from Part 1 of this Standard and recast as encouragements in Part 2 by Exposure Draft ED XX, issued in 201X. ED XX also included a number of editorial amendments and clarifications. It did not impose additional requirements on entities that adopt the Cash Basis IPSAS.

Transitional Provisions - Consolidated Financial Statements

1.8.32 Entities are not required to comply with the requirement in paragraph 1.6.116(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.

1.8.43 Where entities apply the transitional provision in paragraph 1.8.32, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

Amendments to: *Recipient of External Assistance*

Amendments are made to paragraphs 1.10.1 to 1.10.20, 1.10.23 to 1.10.27, and 10.29 to 1.10.34 to remove the requirements to disclose information about external assistance from Part 1 of this Standard. Certain of these requirements are recast as encouragements in Part 2 of this Standard.

Part 2 of this Standard encourages entities to disclose in notes to the financial statements the value of external assistance and assistance from non-governmental organizations received in the form of goods or services. Paragraphs 1.10.21 and 1.10.22 of this Standard require disclosure of the basis on which that value is determined. These paragraphs are retained and amended to apply goods and services received more broadly than from external assistance as defined.

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.~~

~~*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.

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.~~

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.~~

~~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.~~

~~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).~~

~~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 assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).~~

~~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.~~

~~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.~~

~~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.~~

~~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.~~

- ~~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 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.~~

1.10 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 received during the reporting period~~, 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 2.1.98 encourages an entity to make the same disclosures for assistance received from non-governmental organizations (NGOs). 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

~~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.~~

- ~~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 1.10.21 to 1.10.2234 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 Requirements to disclose information about external assistance were removed from Part 1 of this Standard and recast as encouragements in Part 2 by Exposure Draft ED XX, issued in 201X. ED XX did not impose additional requirements on entities that adopt the Cash Basis IPSAS.

~~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.~~

~~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.~~

Amendments: Basis for Conclusions

Paragraphs BC 1 to BC 27 have been added to outline the IPSASB's conclusions in making these amendments to Part 1 of the *Cash Basis IPSAS*.

Basis for Conclusions – Cash Basis IPSAS Part 1

This Basis for Conclusions accompanies, but is not part of the Cash Basis IPSAS. It outlines the basis for conclusions to amendments proposed to Part 1 of the IPSAS. The Basis for Conclusions which follows Part 2 of this Standard deals with amendments to the encouragements in Part 2.

Introduction

BC1. The IPSAS, “Financial Reporting Under the Cash Basis of Accounting” was issued in January 2003 and updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007. It comprises two parts: Part 1 identifies the requirements- that must be adopted by a reporting entity whose financial statements comply with this Standard. Part 2 identifies encouraged disclosures which provide additional information useful for accountability and decision making purposes and support those entities transitioning to the accrual basis of financial reporting.

Reasons for, and Scope of, this Review

BC2. While there are different views about just how many governments and other public sector entities have adopted the Cash Basis IPSAS, there is general agreement that it is not widely adopted. The requirements for consolidation, external assistance and third party payments have been identified by the IPSASB Task Force established to review operation of the IPSAS (IPSASB Task Force Report 2010) and many constituents, including those implementing the IPSAS, as major obstacles to adoption of the Cash Basis IPSAS

BC3. Despite its limited adoption, the IPSASB's strategy consultation in 2014 found that there is strong support for retention of the Cash Basis IPSAS, whether as a standard in its own right or as first step on the transition to the accrual basis of financial reporting, and in some cases for revisions to remove obstacles to its adoption.

BC4. The amendments proposed for the Cash Basis IPSAS in this Exposure Draft (ED) reflect a limited scope review of the IPSAS intended to respond to input the IPSASB has received from constituents on the operation of the Cash Basis IPSAS. The amendments proposed are intended to:

- (a) Overcome the substantial obstacles to its adoption represented by the requirements relating to consolidation, external assistance and third party payments; and
- (b) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than an end in itself.

BC5. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSASs upon which the Standard was based have been updated, and in some cases withdrawn and/or replaced to reflect changes to the equivalent International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as far as is appropriate for public sector entities. This ED proposes minor “housekeeping” amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent updated accrual

IPSASs from which they were derived, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard.

BC6. The amendments proposed in this ED do not address all improvements to the Standard that the IPSASB or constituents may see as desirable over the longer term. Such improvements may be considered in future reviews of the Standard which the IPSASB intends to undertake periodically, or in the process of updating existing or developing new accrual IPSASs.

Consolidation

BC7. Many public sector entities wishing to prepare financial statements that comply with the requirements of this Standard and reflect best practice for financial reporting under the cash basis of accounting face significant obstacles in the preparation and presentation of fully consolidated financial statements. This may be for a number of reasons including: compatibility with existing legislation or regulation which requires the preparation of financial reports for the budget or general government sector or other grouping of activities; difficulties in identifying all controlled entities at reporting date; differences in the reporting basis adopted by government trading enterprises and crown corporations, and the capacity (including access to necessary technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

BC8. Many constituents have expressed concern that the current consolidation requirements undermine the capacity of the Cash Basis IPSAS to perform its role of enhancing the quality of financial statements prepared under the cash basis of accounting and supporting the transition to the accrual basis of financial reporting — because governments and other public sector entities cannot comply with the Standard. This ED proposes amendments to the Cash Basis IPSAS to respond to these concerns.

BC9. The requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities are removed from Part 1 of the IPSAS and recast as an encouragement in Part 2. This will overcome a major obstacle to adoption of the IPSAS.

BC10. Part 2 of the IPSAS encourages controlling entities that do not consolidate all controlled entities to prepare consolidated financial statements that reflect a budget sector, general government sector or other representation of core government activities as they transition to the accrual basis of financial reporting and adoption of the accrual IPSASs. This supports an orderly and achievable transition to full consolidation as required by the accrual IPSASs, responds to concerns of some constituents that full consolidation would result in the loss of information about core governmental activities and, in some cases, is contrary to legislative requirements.

BC11. To support those entities transitioning to the accrual basis, the key definitions, including that of control, are revised where necessary to ensure that they do not conflict with IPSASs 34 *Separate Financial Statements* and IPSAS 35 *Consolidated Financial Statements*

BC12. Part 1 of the Standard will continue to specify the accounting procedures to be adopted when consolidation financial statements are prepared. Part 1 will also require that the term consolidated financial statements only be applied to statements that reflect full consolidation, and that information about the entities included in the economic entity and changes therein be disclosed. This means that users can be confident that consolidated financial statements, whether reflecting a full consolidation of all controlled entities or an economic entity representing a budget sector, general government sector or other interim group of controlled entities, are prepared on a well

understood, accepted and consistent basis and provide information useful as input for accountability and decision making purposes. It also means that the economic entity reflected in the financial statements, and changes therein, will be identified.

BC13. The transitional provision that provide relief for three-years from the requirement to eliminate all cash balances and transactions between entities within the economic entity will also be retained. This will enable entities to claim compliance with this Standard while completing the upgrade to data collection and processing systems that are necessary to generate information to satisfy this requirement.

BC14. The IPSASB considered a number of approaches to removing the obstacles to adoption represented by the current requirements for consolidation. While many of these approaches had merit, the IPSASB decided that, on balance, the approach proposed in this ED best responded to the concerns of those faced with implementing the Cash Basis IPSAS, and those dependent on financial statements prepared in accordance with the IPSAS for information useful for accountability and decision making purposes. The approaches considered, and IPSASB's reasons for not proposing their adoption, include:

- (a) The inclusion of a transitional period of 3 to 5 years, or longer, from first adoption for entities to comply with the existing requirement that controlling entities should consolidate all controlled entities. It is some 12 years since issue of the Cash Basis IPSAS and consolidation remains a major obstacle to its adoption. The IPSASB is not convinced that a 3 to 5 year transitional period is sufficient to overcome the wide, and differing, range of obstacles identified in many jurisdictions;
- (b) Recasting all the consolidation requirements as encouragements, including those requirements relating to the composition of an economic entity and the accounting procedures that are to be adopted in the preparation of consolidated financial statements. Such an approach means that the relationship of the entities encompassed by group financial statements, and/or the basis on which those statements are prepared, may not be clear to users, can change from period to period for the same economic entity and may differ from entity to entity and jurisdiction to jurisdiction. Disclosure requirements can provide information about the composition of, and accounting procedures used in the preparation of, such group financial statements. However, the usefulness of such financial statements for accountability and decision making purposes is likely to be variable;
- (c) Retain the existing consolidation requirements but provide relief for specific practical obstacles such as the need to consolidate government trading enterprises, crown corporation or other problematic class of public sector entities. Such an approach would respond to some of the obstacles identified by constituents and is appealing on that basis. However, it does not respond to all of the obstacles identified by constituents. In addition, for consistency of application, it would also require an agreed definition of what constitutes a government trading enterprise, crown corporation or other specified class of public sector entities. It is not clear that such a definition would be readily applicable across all jurisdictions; and
- (a) Require presentation of financial statements for an economic entity that reflects the budget sector or the general government sector or similar interim group of controlled entities, rather than all controlled entities. Such an approach responds to obstacles identified by constituents in many jurisdictions and is appealing on that basis. However, any attempt to define or

specify such an interim group may trigger some jurisdictional specific obstacles, particularly if legislative requirements do not directly align with a specified interim group and for jurisdictions that are transitioning to the accrual basis and have moved past the interim group reporting entity that might be specified. This ED proposes that 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.².

External Assistance

- BC1. The requirements and encouragements for the disclosure of information about external assistance were added to the Cash Basis IPSAS in 2007 in response to requests from, and with the support of 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.
- BC2. However, the IPSASB is aware that information recipients of external assistance need to satisfy the the requirements of the Standard is not made as readily available or accessible as was anticipated by the IPSASB and its constituents when the requirements were developed and, after being subject to the IPSASB's due process, included in the updated Cash Basis IPSAS. The Cash Basis IPSAS provides some relief from the disclosure requirements when the information is not readily available or verifiable. However, the IPSASB is concerned that the extent to which that relief is necessary, and the resultant inability to verify the completeness and accuracy of information disclosed, may well undermine the usefulness for accountability or decision making purposes of any information that is disclosed. This ED proposes amendments to the Cash Basis IPSAS to respond to these concerns.
- BC3. The required disclosures about such matters as the amount of external assistance received by way way of third party payments, the amounts of undrawn assistance and information about terms and conditions related to external assistance have been removed from Part 1 of this Standard. They have been revised to focus on the disclosure of information about external assistance received as cash or in the form of third party payments, and recast as encouraged disclosures in Part 2 of this IPSAS. The disclosure of information about the amount of undrawn assistance available to the entity at reporting date is also encouraged.
- BC4. The recasting of these requirements as encouragements will overcome a major obstacle to adoption of the IPSAS. It will also respond to concerns of constituents that the requirements for disclosure of information about external assistance included in the Cash Basis IPSAS are:
- (a) More detailed and onerous than those specified in the accrual basis IPSASs, and this is not consistent with the Standard's role in supporting the transition to the accrual basis of financial reporting; and
 - (b) In the nature of information that sits more comfortably in special purpose financial reports than in general purpose financial statements.

² Readers should also note that the Cash Basis IPSAS continues to require 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.

BC5. External assistance received in cash will continue to be recognized in the Statement of Cash Receipts and Payments. Commentary paragraph 1.3.18 has been added to Part 1 of the Standard to explain that for many public sector reporting entities in developing economies, the amount of external assistance received as cash is likely to warrant separate disclosure in the statement of cash receipts and payments.

Third Party payments

BC6. •In principle, the rationale for the disclosure of third party payments as a separate column on the statement of cash receipts and payments appears sound — to ensure that the form of arrangements to provide cash resources to support an entity's operations during any period, whether provided to the recipient entity for the acquisition of goods or services or provided directly to the supplier of those goods or services as designated by the recipient, does not determine whether it is reported in the statement of cash receipts and payments. However, payments made by third parties that are not part of the economic entity to which the reporting entity belongs are likely to mostly comprise payments for goods and services that satisfy the definition of external assistance or payments for goods and services made by other donors – for example, by NGO's or a national or state government to another level of government within the same country.

BC7. The IPSASB is aware of concerns that access to information necessary to satisfy the requirements for disclosure of information about external assistance in the form of third party payments noted above, and the potential misinterpretation of the inevitable incomplete information that results, also apply to other categories of third party payments.

BC8. This ED proposes that the requirements to disclosure of information about payments made by third parties which are not part of the economic entity to which the reporting entity belongs be removed from Part 1 of the IPSAS and recast as encouraged disclosures in Part 2 Part 2. This will respond to these concerns and overcome a major obstacle to adoption of the IPSAS.

BC9. For government departments or agencies that are reporting entities, payments by third parties which are part of the same economic entity will comprise amounts paid by a central agency or other government department. The IPSASB is of the view that information necessary to satisfy the requirements for disclosure of information about payments for goods and services made by these third parties is likely to be readily accessible on a timely basis and substantially complete. Consequently, the requirement in Part 1 of the IPSAS to disclose information about payments made by third parties which are part of the economic entity to which the reporting entity belongs is retained.

BC10. The IPSASB appreciates that these disclosure requirements are more detailed than requirements in the equivalent accrual IPSAS, but is of the view that they are justified. They will enable the statement of cash receipts and payments to present useful information about the extent to which central or other agencies support the delivery of goods and services of the reporting entity, such as a government department or agency, by providing cash directly to the entity for the acquisition of goods or services and by acquiring those goods or services from the supplier on behalf of the entity.

“Housekeeping” - Correction of Errors, Foreign Currency, Government Business Enterprises and Qualitative Characteristics

BC11. Some minor amendments have been made to terminology and explanation of defined terms in sections dealing with *Correction of Errors* and *Foreign Currency* to ensure that the requirements of this Standard are not directly in conflict with those in the equivalent accrual IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors” (issued in December 2006 and last updated in October 2011), and IPSAS 4 “The Effects of Changes in Foreign Exchange Rates” (issued in April 2008 and last updated in October 2011).

BC12. The differences between the current IPSAS 3 and IPSAS 4 and the equivalent IPSASs that were on issue when the Cash Basis IPSAS was approved are substantial. In some cases, they involve different accounting methods and in other cases additional disclosures. Readers should be aware that the revisions to these sections proposed in this ED do not fully reflect all the requirements of the updated IPSAS 3 and IPSAS 4. This is because the IPSASB has not received input that the existing requirements of the cash Basis IPSAS present obstacles to its adoption. The IPSASB is concerned that amending the Cash Basis IPSAS to incorporate all changes to IPSAS 3 and IPSAS 4 may have some unintended effects that could introduce additional obstacles to adoption of the IPSAS, which is contrary to the objective of this project. While more substantial amendments to these sections are beyond the limited scope of this review, they will be considered in any future review of the Standard.

BC13. As part of the housekeeping process, this ED proposes that :

- (a) The definition and explanation of a *Government Business Enterprise* (GBE) be deleted and replaced by the characteristics of the public sector entities to which IPSASs are designed to apply. This is consistent with amendments currently proposed for the accrual IPSASs by Exposure Draft ED 56 *Applicability of IPSASs* (issued July 2015);
- (b) The objective of financial reporting and the identification and explanation of the qualitative characteristics of information included in general purpose financial statements, and the users of general purpose financial statements be updated to better reflect their explanation in the Conceptual Framework. Similar amendments are being developed for inclusion in accrual IPSASs.

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~~ consolidates all its controlled entities as encouraged by Part 2 of this Standard;

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 further updated to reflect IPSASB decisions regarding amendments to the text at this meeting.

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/ (Payments) controlled by entity	Payments by third parties	Receipts/ (Payments) controlled by entity	Payments by third parties
RECEIPTS					
Taxation					
Income tax		X	-	X	-
Value-added tax		X	-	X	-
Property tax		X	-	X	-
Other taxes		<u>X</u>	<u>-</u>	<u>X</u>	<u>-</u>
		X	-	X	-
External Assistance					
	10				
Multilateral Agencies		X	X	X	X
Bilateral Agencies		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>
		X	X	X	X
Other Grants and Aid					
		X	X	X	X
Other Borrowings					
Proceeds from borrowing	3	X	X		
Capital Receipts					
Proceeds from disposal of plant and equipment		X	-	X	-
Trading Activities					
Receipts from trading activities		X	-	X	-
Other receipts	4	<u>X</u>	<u>X</u>	X	<u>X</u>

	Note	2000X		200X-1	
		Receipts/ (Payments) controlled by entity	Payments-by third-parties	Receipts/ (Payments) controlled by entity	Payments-by third-parties
(in thousands of currency units)					
Total receipts		<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

(in thousands of currency units)	Note	<-----200X----->		<-----200X-1----->	
		Receipts/ (Payments) controlled by entity	Payments by third-parties	Receipts/ (Payments) controlled by entity	Payments by third-parties
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)	(X)	(X)	(X)
Supplies and consumables		(X)	(X)	(X)	(X)
		(X)	(X)	(X)	(X)
Transfers					
Grants		(X)	—	(X)	—
Other transfer payments		(X)	—	(X)	—
		(X)	—	(X)	—
Capital Expenditures					
Purchase/construction of plant and equipment		(X)	(X)	(X)	(X)
Purchase of financial instruments		(X)	—	(X)	—
		(X)	(X)	(X)	(X)
Loan and Interest					
Repayments					
Repayment of borrowings		(X)	—	(X)	—
Interest payments		(X)	—	(X)	—
		(X)	—	(X)	—
Other payments	5	(X)	(X)	(X)	(X)
Total payments		(X)	(X)	(X)	(X)
Increase/(Decrease) in Cash		X	—	X	—
Cash at beginning of year	2	X	N/A*	X	N/A
Increase/(Decrease) in Cash		X	N/A	X	N/A
Cash at end of year	2	X	N/A	X	N/A

* N/A = Not applicable.

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 Amounts	Final Budget	Original Budget	**Difference: Final Budget and Actual
CASH INFLOWS				
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 equipment				
	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	X	X	X	X
CASH OUTFLOWS				
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)
Total payments	(X)	(X)	(X)	(X)
NET CASH FLOWS	X	X	X	X

*—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.

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)	200X Receipts controlled by entity	200X-1 Receipts controlled by entity
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	<u>X</u>	<u>X</u>

PROCEEDS OF BORROWINGS

(in thousands of currency units)	Note	←-----200X----- >	←-----200X-1----->
		Cash Receipts controlled by entity	Resulting from Payments by third parties
		Receipts controlled by entity	Resulting from Payments by third parties
BORROWINGS			
Domestic Commercial Institution		X	-
Offshore Commercial Institution		X	-
Development Banks and Similar Lending Agencies		X	X
Total borrowings	3	<u>X</u>	<u>X</u>

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
PAYMENTS/EXPENDITURE –				
Operating Account				
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
Total payments/expenditure	X	X	X	X
PAYMENTS/EXPENDITURE –				
Capital Account				
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
Total payments/expenditure	X	X	X	X
Total Operating and Capital Accounts	X	X	X	X

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 ~~presentation~~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:

(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
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	200X	200X-1
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Total undrawn borrowing facilities	X	X

7. Significant Controlled Entities

Entity	Jurisdiction
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 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.

	Total inflows	Total outflows
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	X	X
Basis Differences	X	X
Timing Differences	-	-
Entity Differences	X	X
Total Cash receipts	X	
Total Cash Payments		X

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 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.

Optional disclosures encouraged by Part 2 of this Standard

9 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 include payments for goods and services made under external assistance agreements and by non-governmental organizations and other parties to support the activities of the government entities included in these group accounts. The government has been advised that the following payments have been made by third parties for goods and services in support of the activities undertaken by the budget sector during 200X.

THIRD PARTY PAYMENTS

	<u>200X</u>	<u>200X-1</u>
<u>(in thousands of currency units)</u>		
<u>Third party payments made as</u>		
<u>External Assistance agreements</u>	X	X
<u>Support by NGOs</u>	X	X
<u>Other</u>	X	X
<u>Total third party payments</u>	<u>X</u>	<u>X</u>

Additional information about external assistance is provided in note 10 below

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 presentation currency of the entity.

	<u>200X</u>	<u>200X-1</u>
	<u>Total</u>	<u>Total</u>
Loan Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	<u>X</u>	<u>X</u>
Grant Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	<u>X</u>	<u>X</u>
Total External Assistance	<u>X</u>	<u>X</u>

~~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 development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.~~

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.

	Loans	Grants	Loans	Grants
	200X	200X	200X-1	200X-1
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).~~

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/ (Payments) controlled by entity	Payments by other government entities	Payments by-external third parties	Receipts/ (Payments) controlled by entity	Payments by other government entities	Payments by-external third parties
(in thousands of currency units)							
RECEIPTS							
Authorized allocations/Appropriations		X	X	-	X	X	-
Other receipts		X	-	-	X	-	-
Grants/Assistance		-	-	X	-	-	X
Total receipts		X	X	X	X	X	X
PAYMENTS							
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)
Total payments		(X)	(X)	(X)	(X)	(X)	(X)
Increase/(Decrease) in Cash		X	X	(X)	X	(X)	X
Cash at beginning of year	2	X	N/A*	N/A	X	N/A	N/A
Increase/(Decrease) in Cash		X	N/A	N/A	X	N/A	N/A
Cash at end of year	2	X	N/A	N/A	X	N/A	N/A

* N/A = Not Applicable.

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 controlled by entity	Payments by other government entities	Payments by external third parties	Payments controlled by entity	Payments by other government entities	Payments by external third parties
(in thousands of currency units)						
PAYMENTS/EXPENDITURE						
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)
Total payments/expenditure	(X)	(X)	(X)	(X)	(X)	(X)

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.

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	X	X
	<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.

Payments by external third parties – optional disclosure

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 include payments for goods and services made during the reporting period by other government agencies on behalf of the entity and payments made under external assistance agreements as outlined below.

PAYMENTS MADE BY THIRD PARTIES EXTERNAL TO THE ECONOMIC ENTITY

<u>(in thousands of currency units)</u>	<u>200X</u>	<u>200X-1</u>
<u>External Assistance agreements</u>	<u>X</u>	<u>X</u>
<u>Other government agencies</u>	<u>X</u>	<u>X</u>
<u>Total third party payments</u>	<u>X</u>	<u>X</u>

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----->	
		Treasur y Account / Single Control Account	Payments by external third parties	Treasur y Account / Single Control Account	Payments by external third parties
(in thousands of currency units)					
RECEIPTS					
Allocations/ Appropriations	2	X	-	X	-
Other receipts		X	-	X	-
Assistance		-	X	-	X
Total receipts		X	X	X	X
PAYMENTS					
Wages, salaries and employee benefits		(X)	-	(X)	-
Rent		(X)	-	(X)	-
Capital Expenditure		(X)	(X)	(X)	(X)
Transfers	3	(X)	(X)	(X)	(X)
Total payments		(X)	(X)	(X)	(X)

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 Account/Single Control Account	Payments by external third parties	Treasury Account/Single Control Account	Payments by external third parties
(in thousands of currency units)				
PAYMENTS				
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
Total payments	X	X	X	X

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 [\(specify type of\)](#) 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 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.

Agenda Item 2.2(b)

Amendments to the introductory paragraphs to Part 2 of the Cash Basis IPSAS: *Financial Reporting Under the Cash Basis of Accounting – Encouraged Additional Disclosures*

Amendments are made to reflect that Part 2 of the IPSAS is intended to support those entities transitioning from the cash basis of financial reporting to the accrual basis and adoption of the accrual IPSASs.

PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING - ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. [It is has been prepared to support those entities transitioning from the cash basis of financial reporting to adoption of the accrual basis of financial reporting and the accrual IPSASs.](#) 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.

[Reporting entities should plot their path to adoption of the accrual IPSASs, and commence the process of building the information necessary to comply with those IPSASs consistent with the transition path that has been adopted. Study 14, “Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities”, provides guidance on transitional paths and implementation processes that may followed in the adoption of accrual basis IPSAS.](#)

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

Amendments to: *Definitions*

Amendments are made to paragraph 2.1.1 to remove the definitions of:

- (a) *Extraordinary items* and *ordinary items*, because disclosure of extraordinary items is no longer encouraged; and
 - (b) *Financial asset*, because this term is not used in the Standard.
-

2.1 Encouraged Additional Disclosures

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.~~

~~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.

Amendments to Extraordinary Items

Amendments are made to paragraphs 2.1.6 to 2.1.14 to remove the encouragement to disclose information about extraordinary items.

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 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.~~

Amendments to: Assets, Liabilities and Comparison with Budgets

Amendments are made to paragraphs 2.1.33 to 2.1.35 to identify additional accrual IPSASs that can provide useful guidance to entities wishing to disclose information about assets, liabilities, revenues and expenses. Paragraph 2.1.36 has been added to acknowledge the issue of Recommended Practice Guidelines.

Disclosure of Assets, Liabilities, Revenues, Expenses 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, revenues and expenses 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. They also incur costs and generate revenues during the reporting period which will result in cash flows of a future reporting period. Non-cash assets, ~~and~~ liabilities, revenues and expenses 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 and the costs of their activities during the reporting period and the sources and amount of related revenues. The disclosure of information about assets, ~~and~~ liabilities and the costs and revenues of particular programs and activities will enhance accountability and provide information useful for decision making purposes and is encouraged by this Standard.

2.1.35 Entities that make such disclosures are encouraged to identify revenues and expenses by nature or their function as appropriate to the entity's operations and assets and liabilities by type, for example, by classifying:

- (a) Assets as receivables, investments or property plant and equipment; and
- (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 as they transition to full adoption of the accrual IPSASs. 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 IPSASs dealing with the following matters can provide useful guidance to entities disclosing additional information about assets, liabilities revenues and expenses: 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.~~ IPSAS 23 Revenue from Non-exchange Transactions (Transfers and Taxation), IPSAS 25 Employee Benefits, IPSAS 28 Financial Instruments: Presentation, IPSAS 29 Financial Instruments: Recognition and Measurement, IPSAS 30 Financial Instruments: Disclosures, IPSAS 32 Service Concession Arrangements: Grantor, and IPSAS 31 Intangible Assets.

2.1.36 As entities transition to the accrual basis of reporting, Recommended Practice Guidelines provide guidance on disclosures directed at assisting users to better understand such matters as (a) the sustainability of the entity's finances (RPG 1, "Reporting on the Long-Term Sustainability of an Entity's Finances"); (b) the financial position, financial performance and cash flows of the entity

(RPG 2, “*Financial Statement Discussion and Analysis*”); and (c) the entity’s service performance objectives and achievements (*RPG3Reporting Service Performance Information*).

Amendments to: *Consolidated Financial Statements*

Amendments are made to:

- (a) Add paragraphs 2.1.41 to 2.1.50 to encourage controlling entities to present consolidated financial statements which consolidates all controlled entities and, when such statements are not prepared, to present consolidated financial statements for an economic entity that represents the budget sector, general government sector (GGS) or other representation of core government activities; and
- (b) Update paragraphs 2.1.51 to 2.1.58 (formerly 2.1.41 to 2.1.48) to reflect the equivalent requirements of IPSAS 35 as far as appropriate for application to the cash basis of reporting.

Consolidated Financial Statements

2.1.41 A controlling entity, other than a controlling entity identified in paragraph 2.1.43 is encouraged to present consolidated financial statements which consolidates all its controlled entities, foreign and domestic.

2.1.42 When a controlling entity, other than a controlling entity identified in paragraph 2.1.43, does not present financial statements that consolidated all its controlled entities, it is encouraged to present financial statements that consolidate its controlled entities which represent the budget sector, general government sector (GGS) or other economic entity that represents core government activities and responds to users information needs.

Staff Comment: The exclusion for controlled entities subject to long term restrictions in paragraph 1.6.6 of the cash basis IPSAS is built into the IPSAS 35, definition of control and its related application guidance (see IPSAS 35, paragraph AG 25). It is acknowledged in commentary paragraph 2.1.50 of this ED – see below.

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.

2.1.43 The preparation of consolidated financial statements is unnecessary for a controlling entity that meets the following conditions :

(a) It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;

(b) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

(d) Its ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with the Cash Basis IPSAS or the accrual IPSASs, in which controlled entities are consolidated or are measured at fair value through surplus or deficit in accordance with this Standard.

- 2.1.44 An “economic entity” is a group of entities comprising the controlling entity and any controlled entities. Consolidated financial statements are the financial statements of an economic entity in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity. (See paragraphs 1.3.1, 1.3.2 and 1.6.1 of Part 1 of this Standard for definitions and explanations of an economic entity and consolidated financial statements.)
- 2.1.45 The consolidated financial statements of an economic entity that comprises a government and all its controlled entities will provide information about the cash resources controlled by the government directly and through its controlled entities at reporting date, and changes in those resources during the reporting period. The consolidated financial statements of other public sector economic entities such as, for example, a ministry of health or an education department, will provide information about the cash resources controlled by the ministry or department and changes in those resources during the reporting period.
- 2.1.46 This Standard encourages governments and other public sector controlling entities to present financial statements which consolidate all controlled entities when users of such financial statements are likely to exist. Some governments and other public sector entities face significant obstacles in the preparation and presentation of consolidated financial statements and may not be able to prepare fully consolidated financial statements in the short to medium terms as they commence the transition to the full accrual basis. Governments and other public sector controlling entities may claim compliance with this Standard as they progressively overcome obstacles to the preparation and presentation of financial statements that consolidate all controlled entities.
- 2.1.47 As governments and other public sector entities that report on the cash basis transition to the accrual basis of financial reporting and develop the capacity, systems and the legislative frameworks to overcome obstacles to consolidation, the potential to include in cash basis financial statements information about additional of their controlled entities will increase. For governments, the preparation of consolidated financial statements for an economic entity that comprises the entities that represents, for example, the budget sector, the general government sector or other representation of core government activities will provide information about key sectors of government that is useful to users for accountability and decision making purposes. This Standard encourages the presentation of consolidated financial statements for such an economic entity as an interim step in the transition to fully consolidated financial statements. Government agencies which do not consolidate all their controlled entities are also encouraged to present financial statements which consolidate controlled entities which represent a subgroup of their activities useful to users for accountability and decision making purposes. Where such interim consolidated financial statements are prepared, Part 1 of this Standard requires that they be identified by a term that best describes the classes or (characteristics) of entities included in those statements.
- 2.1.48 The preparation of consolidated financial statements is not a cost-free process. Therefore, it is important that the benefits of preparing such statements justify the costs of their preparation. Preparation of consolidated financial statements by a controlling entity which is itself a controlled entity will often not be necessary in the circumstances identified in paragraph 2.1.43. This is because users’ need for information presented in cash basis financial statements are often met by the consolidated financial statements of its controlling entity. However, in other cases consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions there are legislated financial reporting requirements intended to address the information needs of such users.

2.1.49 Consistent with the definition of control of an entity in Part 1 of this Standard (see paragraph 1.6.1), one entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

2.1.422.1.50 In some cases, an entity which has the power to direct the relevant activities of another entity may not be able to benefit from the activities of that other entity - for example, when the other entity is subject to severe external long-term restrictions which prevent the entity with the power to direct its activities from benefiting from those activities. The cash flows and balances of such entities are not included in consolidated financial statements. This is because consolidated financial statements present information about the cash resources of the government or other public sector reporting entity that can be used to support the delivery of goods and services or otherwise benefit the reporting entity.

Disclosures

2.1.422.1.51 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, a description of how that ownership interest has been determined~~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, the factors considered in determining that:
 - (i) the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less. It controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities), together with an explanation of how control exists; and
 - (ii) the name of any entity in which It does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities) 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
- (be) In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.

2.1.52 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:

(a) -The method used to account for bases on which controlled entities are accounted for in its separate financial statements;

(a)(b) -It is also encouraged to disclose Tthe name and the principal address of its controlling entity that publishes consolidated financial statements.; and

(b)(c) In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.

2.1.432.1.53 Paragraph 1.6.1520(b) of Part 1 of this Standard requires the disclosure of information about the entities that are included in consolidated financial statements that are presented, and that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraphs 2.1.431.6.7 and 1.6.8 of Part 1 of this Standard identifies circumstances in which also provide that a controlling entity that is itself a wholly owned entity or a controlleding entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.452 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

~~2.1.442.1.54~~ 2.1.442.1.54 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.

~~2.1.452.1.55~~ 2.1.452.1.55 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.

~~2.1.462.1.56~~ 2.1.462.1.56 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.

~~2.1.472.1.57~~ 2.1.472.1.57 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.

~~2.1.482.1.58~~ 2.1.482.1.58 Paragraph 2.1.33 encourages the disclosure of assets, ~~and~~ liabilities, revenues and expenses of the entity. Assets, ~~and~~ liabilities, revenues and expenses other than cash or cash flows 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, revenues and expenses should be clearly identified and the basis on which they are measured and recognized explained.

Amendments to: *Joint Ventures*

Amendments are made to paragraphs 2.1.59 and 2.1.60 (formerly, 2.1.49 and 2.1.50) to align with terminology and explanations adopted in IPSAS 36 *Investments in Associates and Joint Ventures* (issued in January 2015) and IPSAS 37 *Joint Arrangements* (issued in January 2015). IPSAS 36 and IPSAS 37 replaced IPSAS 8 *Financial Reporting of Interests in Joint Ventures* which was on issue when the Cash Basis IPSAS was issued.

Joint ~~Arrangements~~ Ventures

~~2.1.59 2.1.49~~—An entity is encouraged to make disclosures about joint ~~ventures~~ arrangements 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

~~2.1.60 2.1.50~~—A joint arrangement is an arrangement of which two or more parties have joint control.

Many public sector entities establish joint ~~arrangements~~ 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 ~~arrangement~~ 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 venturers. 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 ~~arrangement~~ venture and in the ongoing operations of the joint ~~arrangement~~ venture; and
- (b) As cash receipts, the cash received from the joint ~~arrangement~~ venture.

Disclosures about joint ~~ventures~~ arrangements may include a listing and description of interests in significant joint ~~arrangements~~ ventures.

International Public Sector Accounting Standard IPSAS ~~36 Investments in Associates and Joint Ventures~~ and IPSAS 37 *Joint Arrangements* ~~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 ~~arrangements~~ ventures may take and potential additional disclosures that might be made.

Amendments to: *Payments by Third Parties on Behalf of the Entity*

Paragraphs 2.1.74 to 2.1.78 are added to encourage the note disclosure of payments made to settle the obligations of the reporting entity or purchase goods and services for the benefit of the entity by third parties which are not part of the economic entity to which the reporting entity belongs. These disclosures were previously designated as required disclosures in Part 1 of this Standard.

(Staff comment – this section will follow the section dealing with *Financial Reporting in Hyperinflationary Economies* (formerly paragraphs 2.1.51 to 2.1.63) which, at this stage, remain unchanged in the draft ED)

Payments by Third Parties on Behalf of the Entity

2.1.74 When during the reporting period a reporting entity has been formally advised that payments have been made to directly settle its obligations or purchase goods and services for its benefit by third parties which are not part of the economic entity to which it belongs, or the entity has otherwise verified that such payments have been made, the entity is encouraged to disclose in notes to the financial statements:

(a) Total payments made by such third parties; and

(b) A sub-classification of the sources and uses of the total amount of such payments using a classification basis appropriate to the entity's operation.

2.1.75 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.

2.1.76 The disclose of information about the amount, sources and uses of payments made by third parties which are not part of the economic entity to which it belongs will provide additional information useful for accountability and decisions making. In some cases, an entity may not have been formally advised or otherwise aware of third party payments made on their behalf during the reporting period, may be unable to verify that an expected payment has occurred. If an entity cannot have confidence that the amount of third party payments disclosed is a faithful representation of all such payments made on behalf of the entity during the period, the notes should advise users that such disclosures may not encompass all such third party payments.

2.1.77 Paragraphs 2.1.86(b) and 2.1.98 below encourage additional disclosures about external assistance and assistance from non-governmental organizations provided to an entity in the form of a third party payment.

2.1.78 The sub-classifications (or classes) of sources and uses of third party payments which may be disclosed in accordance with paragraphs 2.1.74(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17 of Part 1 of this Standard

Amendments to: *Recipients of External Assistance*

Amendments are made to:

- (a) Add paragraphs 2.1.79 to 2.1.93 to define external assistance and related terms and encourage certain disclosures about external assistance received during the reporting period in notes to the financial statements. These disclosures were previously designated as required disclosures in Part 1 of this Standard.
- (b) Delete paragraphs 2.1.66 to 2.1.89 which encourage disclosure of information about such matters as significant terms and conditions of external assistance agreements, terms and agreements that have not been complied with, each provider of external assistance and the amount provided, and repayment terms and conditions of outstanding external assistance debt.

Recipients of External Assistance

Definitions

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

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.

2.1.80 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 encouragements of this Standard apply.

External Assistance

2.1.81 External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined above does not encompass assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement.

2.1.82 NGOs 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.

Official Resources

2.1.83 Official resources are 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

2.1.84 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 to the recipient.

External Assistance Received

2.1.86 An entity is encouraged to disclose separately in notes to the financial statements:

- (a) Total amount of external assistance received in cash during the period unless disclosed as a separate class of cash receipt on the face of the statement of cash receipts and payments;
- (b) 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 when advised by the third party or otherwise verified by the recipient;
- (c) The total amount of external assistance received during the period as loans and the total amount received as grants;
- (d) By significant class, the purposes for which external assistance was received during the reporting period ~~showing separately amounts provided by way of loans and grants~~, and the purposes or which external assistance payments were made during the reporting period;

(e) 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:

(a) Total external assistance loans;

(b) Total external assistance grants; and

(a)(c) The purposes for which the undrawn loan assistance and undrawn grant assistance may be used.

(b)(f) 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)(a) the purposes for which external assistance payments were made during the reporting period.

External assistance received and used

2.1.87 Disclosure of the total amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity can provide useful information about the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance as defined, and the form of that assistance – whether as cash or in the form of other benefit. As noted in paragraph 2.1.74 above, the disclosure of external assistance received in the form of payments by third parties is encouraged when the entity has been formally advised, or otherwise verified, that such payments have been made during the reporting period.

2.1.88 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.

~~2.1.86~~ 2.1.89 ~~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.

~~2.1.87~~ 2.1.90 ~~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 by of the significant classes of the purpose for which external assistance received and whether by way of loan or grant will enable users to identify/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.

2.1.91 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.

Undrawn external assistance grants and loans

2.1.92 *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. The disclosure of undrawn balances of external assistance in these circumstances will provide information about the extent to which available external assistance has been drawn on during the reporting period and the amount of committed external assistance is available to support the ongoing development of particular projects.*

2.1.93 *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 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 encouraged by paragraph 2.1.86(e). 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.*

~~2.1.66~~ ~~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.~~

~~2.1.67~~ ~~**Moved to 2.1.89**~~

~~2.1.68~~ ~~**Moved to 2.1.90**~~

~~2.1.69~~ ~~**Moved to 2.1.91**~~

~~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)(a) 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.~~
- 2.1.940 *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.*
- 2.1.954 Paragraph 2.1.84 explains that external assistance agreements may provide for the recipient entity to receive cash, goods or services, or request the external assistance agency to make payments directly to settle in cash an obligation(s) of the recipient. 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.
- 2.1.960 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 a unique nature, such as often occurs in respect of emergency assistance.
- 2.1.972 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.

Amendments to: Assistance Received From Non-Governmental Organizations (NGOs)

Amendments are made to paragraphs 2.1.98 and 2.1.99 (formerly 2.1.64 and 2.1.65) to reflect that the required disclosures about external assistance have been deleted from Part 1 of this Standard and recast as encouraged disclosures in Part 2.

Assistance Received From Non-Governmental Organizations (NGOs)

2.1.98 ~~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 2.1.79 to 2.1.97 above of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*

2.1.99 ~~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, ~~M~~making the disclosures about assistance received from NGOs which are identified in paragraphs 2.1.79 to 2.1.97 above ~~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.~~*

Amendments to: Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

Amendments are made to:

- (a) Paragraphs 2.2.3 to 2.2.6 to reflect that that this Standard encourages but does not require controlling entities to prepare consolidated financial statements; and
 - (b) Add paragraphs 2.2.7 to 2.2.10 to outline the role of IPSAS 33 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards* in supporting the transition to the accrual basis of financial reporting and the adoption of the accrual IPSASs.
-

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.

Scope of Consolidated Financial Statements – ~~Exclusions from t~~The Economic Entity

- 2.2.3 This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities, and identifies some circumstances in which this may not be necessary. These circumstances reflect those in IPSAS 35 Consolidated Financial Statements. However, IPSAS 35 includes additional exemptions from the requirement to prepare consolidated financial statements for investment entities that measure their controlled entities at fair value through surplus or deficit. When an entity adopts the accrual basis of accounting in accordance with the accrual IPSASs, it will not consolidate investment entities in these circumstances. ~~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 T~~his Standard does not provide for such investment entities be excluded from the consolidated financial statements prepared under the cash basis. This is because the cash flows and cash balances of such investment entities can be used for the benefit of the economic entity and should be included in consolidated financial statements prepared under the cash basis to present information about the cash flows and balances controlled by the economic entity.:
 - ~~(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.~~

2.2.5 When financial statements which consolidate all controlled entities are not presented, this Standard encourages the presentation of consolidated financial statements which present information about an economic entity that comprises subgroups of controlled entities such as those reflecting the budget sector or the general government sector. While the accrual IPSASs do not prohibit the presentation of information about such economic entities, they cannot be presented as an alternative to the full consolidation of all controlled entities as prescribed in IPSAS 35.

2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of these differences 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.

Required and Encouraged Disclosures under the Cash Basis IPSAS

2.2.7 The requirements and encouragements of this Standard are not inconsistent with the requirements and encouragements of the equivalent accrual IPSASs, to the extent they apply to financial reporting under the cash basis. However, in some cases this Standard requires or encourages disclosures that are not required by the accrual IPSASs. This occurs in respect of disclosures about such matters as third party payments, external assistance and composition of the economic entity presented in the financial statements. These disclosures are required or encouraged in this Standard to provide additional information useful in assessing how the entity is resourced. Such information is useful to all users of general purpose financial statements for accountability and decision making purposes. They may also be relevant to the “special purpose” needs of, for example, providers of external assistance for information useful in monitoring the provision and use of assistance provided to the entity.

2.2.8 A listing of the accrual based IPSASs and Recommended Practice Guidelines currently on issue is included at Appendix 6. Entities preparing to migrate to the accrual basis will need to progressively build the information and systems necessary to comply with those IPSASs prior to the formal adoption of the accrual IPSASs.

IPSAS 33 —First-Time Adoption of Accrual Basis IPSASs

2.2.9 IPSAS 33 “First Time Adoption of Accrual Basis IPSASs” identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSASs for three (3) years from the date of first adoption of accrual IPSASs. IPSAS 33 provides that on the date of adoption of IPSASs, a first-time adopter may elect to adopt one or more of the exemptions included in IPSAS 33 and, subject to the nature of the exemptions adopted, identify its financial statements as either:

(a) Transitional IPSAS financial statements, when it adopts exemptions identified in IPSAS 33 as “Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs”; or

(b) Financial statements that comply with the accrual IPSASs, when it adopts other of the exemptions identified in IPSAS 33. That is the exemptions identified in IPSAS 33 as “Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs”¹.

2.2.62.2.10 Appendix A of IPSAS 33 lists the transitional exemptions and provisions that a first -time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs, and illustrates whether fair presentation and the first -time adopter’s ability to assert compliance with accrual basis IPSASs will be affected.

¹ IPSAS 33, Appendix A lists the transitional exemptions and provisions that a first -time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs and illustrates whether fair presentation and the first -time adopter’s ability to assert compliance with accrual basis IPSASs will be affected.

Amendments: *Basis for Conclusions*

Paragraphs BC 1 to BC 13 have been added to outline the issues and IPSASB's conclusions in making these amendments to Part 2 of the *Cash Basis IPSAS*.

Basis for Conclusions – Cash Basis IPSAS Part 2

This Basis for Conclusions accompanies, but is not part of the Cash Basis IPSAS. It outlines the basis for conclusions to amendments proposed to Part 2 of the IPSAS.

Introduction - Removing obstacles to adoption of this IPSAS.

BC1. The requirements for consolidation, external assistance and third party payments formerly included in Part 1 of the IPSAS have proven to be major obstacles to adoption of the Standard. To remove those obstacles, these requirements have been recast as encouragements in Part 2 of the Standard.

BC2. In the process of recasting these requirements to encouragements additional amendments have been made to strengthen the role of Part 2 of the Standard as supporting the transition to the accrual basis of accounting.

Consolidation.

BC3. This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities. It also encourages controlling entities that do not consolidate all controlled entities, to prepare consolidated financial statements for an economic entity that represents the budget sector, the general government sector or other representation of core government activities. Such consolidated financial statements will provide information useful to users for accountability and decision making purposes and support an orderly and useful transition to full consolidation as required by the accrual IPSASs. The encouragement to present consolidated financial statements for an economic entity that represents the general government sector as far as possible is also consistent with the IPSASB's strategic objective of supporting the convergence of public sector accounting standards and statistical bases of financial reporting where appropriate.

BC4. To further support those entities transitioning to the accrual basis, the key definitions and encouraged disclosures have been revised where necessary to ensure that they do not conflict with IPSASs 34 – 38 and guidance on control drawn from IPSAS 35 included in Appendix 5 of this Standard.

External assistance

BC5. The requirements to disclose information about external assistance have been recast as encouragements. The disclosures previously required or encouraged have been reduced to focus primarily on disclosure of information about external assistance received and used during the reporting period in the form of cash and third party payments and undrawn assistance available to the reporting entity as at reporting date. Consequently, encouraged disclosures of information about such matters as significant terms and conditions of external assistance agreements, terms and agreements that have not been complied with and repayment terms and conditions of outstanding external assistance debt have been deleted. The IPSASB is of the view that disclosures consistent with the remaining encouragements are more likely to be achievable and better reflect the general purpose nature intended for the cash basis financial statements.

BC6. The IPSASB acknowledges that the remaining encouraged disclosures include some matters not specifically required by the accrual IPSASs. However, it is of the view that they can be justified because they provide additional information useful in assessing how the entity is resourced. This will be useful to all users of the financial statements for accountability and decision making purposes and may also be relevant to the “special purpose” needs of providers of external assistance for information useful in monitoring the provision and use of assistance provided to the entity.

Third Party payments

BC7. Part 1 required the disclosure of certain information about payments made by third parties which are not part of the economic entity to which the reporting entity belongs in a third column on the face of the statement of cash receipts and payments. That requirement has been recast as an encouragement, except that it encourages such disclosures to be made in notes to the financial statements, rather than on the face of the statements. The IPSASB anticipates that such third party payments will comprise external assistance or assistance from other parties, and is concerned that information necessary to fully satisfy the encouragement will not be available to recipients. In such circumstances, the information is likely to be incomplete and the potential for misinterpretation of its usefulness for accountability and decision making purposes does not justify its disclosure in a separate column on the face of the financial statements.

Amendments to support Entities transitioning to the accrual basis of financial reporting

BC8. Additional refinements have been made to the encouragements in Part 2 of the Standard to reinforce its role in supporting governments and other public sector entities transitioning to the accrual basis of financial reporting. These amendments include updating definitions and encouraged disclosures to ensure that they are not contrary to the equivalent accrual IPSASs from which they were derived unless intended to be so to reflect the cash basis focus in this Standard. This Standard encourages disclosure of some matters not specifically required by the accrual IPSASs – for example, disclosure of certain information about third party payments and external assistance and composition of the economic entity presented in the financial statements. The IPSASB is of the view that this is justified because they provide additional information useful in assessing how the entity is resourced that would not otherwise be available under cash basis financial reports.

BC9. A broad overview of the nature of, and reasons for, these amendments is provided below.

Extraordinary Items

BC10. The encouragements to disclose information about extraordinary items and supporting definitions and explanations have been deleted. IPSAS 1 "Presentation of Financial Statements" (issued in 2000), which was on issues when the Cash Basis IPSAS was issued, required certain disclosures about extraordinary items to be made on the face of the financial statements. 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. These requirements have now been removed from the IPSASs. The accrual IPSASs do not require, encourage or prohibit disclosure of extraordinary items. Amendments to Part 2 of this Standard have been made to align with the accrual IPSASs.

IPSAS issued post issue of the Cash Basis IPSAS

- BC11. Consistent with the IPSASB's intention that Part 2 of the Standard support the transition to adoption of the accrual basis of financial reporting Part 2 has been updated to acknowledge relevant accrual IPSASs and Recommended Practice Guidelines issued after Cash Basis IPSAS was issued. In addition, paragraphs 2.2.9 and 2.2.10 have been added to outline the role of IPSAS 33 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards* in providing relief from complying with certain of the requirements of accrual IPSASs for a 3 year period from first adoption.
- BC12. A listing of IPSASs and RPG's currently on issue has been added to the Standard as Appendix 6. The IPSASB intends that the due-process for development of new accrual IPSASs will include consideration of whether amendments for the Cash Basis IPSAS are necessary to acknowledge additions to the suit of accrual IPSASs.
- BC 13. The encouraged disclosures in Part 2 are for the most part based on requirements and encouragements of the equivalent IPSASs in place when the Standard was issued. These disclosures have been revised where necessary to ensure that they are not inconsistent with the requirements and encouragements of the equivalent accrual IPSASs, except where those differences reflect the narrower focus on cash rather than all resources and obligations.

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 the proposed revisions to the encouraged disclosures, in particular whether encouragements for the disclosure of information about third party payments and external assistance are to be retained, and the extent of any such disclosures.

The illustrations have been amended to reflect:

- (a) In Appendix 2, removal of the encouragement to separately disclose the nature and amount of each extraordinary item;
- (b) In Appendix 4, that Qualitative Characteristics identified in the Conceptual Framework
- (b) In Appendix 5, that IPSAS 6 has been replaced by IPSAS 34 and 35, and the explanation and guidance on control included in IPSAS 6 has been replaced by explanation and guidance in IPSAS 35.
- (c) In Appendix 6, the accrual IPSASs and RPGs currently on issue.

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>	<u>X</u>
		X	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 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)	200X	200X-1
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>

(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:

(in thousands of currency units)	200X	200X-1
Balance at beginning of year	X	X
PROCEEDS		
Domestic Commercial Institution	X	X
Offshore Commercial Institution	X	X
Development Banks and Similar Lending Agencies	X	X
Total borrowings	X	X
REPAYMENTS		
Domestic Commercial Institution	(X)	(X)
Offshore Commercial Institution	(X)	(X)
Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	(X)	(X)
Balance at end of year	X	X

(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	Budget	Variance
RECEIPTS			
<i>Taxation</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>Aid Agreements</i>			
International agencies	X	X	-
Other Grants and Aid	<u>X</u>	<u>X</u>	=
	X	X	-
<i>Borrowings</i>			
Proceeds from borrowings	X	X	(X)
<i>Capital Receipts</i>			
Proceeds from disposal of plant and equipment	X	X	X
<i>Trading Activities</i>			
Receipts from trading activities	X	X	X
<i>Other receipts</i>			
	X	X	X
Total receipts	<u>X</u>	<u>X</u>	<u>X</u>
PAYMENTS			
<i>Operations</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>Transfers</i>			
Grants	(X)	(X)	-
Other transfers	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	-
<i>Capital Expenditures</i>			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	(X)
<i>Loan and Interest Repayments</i>			
Repayment of borrowings	(X)	(X)	-
Interest payments	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	-
<i>Other payments</i>			
	(X)	(X)	X
Total payments	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>

(in thousands of currency units)	Actual	Budget	Variance
NET RECEIPTS/(PAYMENTS)	X	X	X

Extract from notes to financial statements of Entity XYZ

Controlled Entities (paragraphs 2.1.5141, 2.1.544, and 2.1.545)

Entity XYZ has ~~the~~ has rights to variable benefits from its involvement with the other entities and has the ability to affect the nature or amount of those benefits through its power over those entities ~~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 1.6.1520(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

(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~~ Arrangements (paragraph 2.1.459)

Name of Joint Arrangement	Principal Activity	Output Interest	
		200X %	200X-1 %
Regional Water Board	Water provision	XX	XX
Regional Electricity Board	Provision of utility services	XX	XX

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)	Original Biennial Budget Year	Target Budget for 1 st Year	Revised Budget in 1 st Year	1 st Year Actual on Comparable Basis	Balance Available for 2 nd Year	Target Budget for 2 nd Year	Revised Budget in 2 nd Year	2 nd Year Actual on Comparable Basis	*Difference: Budget and Actual for Budget Period
CASH INFLOWS									
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
Total inflows	X	X	X	X	X	X	X	X	X
CASH OUTFLOWS									
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)

(in thousands of currency units)	Original Biennial Budget Year	Target Budget for 1 st Year	Revised Budget in 1 st Year	1 st Year Actual on Comparable Basis	Balance Available for 2 nd Year	Target Budget for 2 nd Year	Revised Budget in 2 nd Year	2 nd Year Actual on Comparable Basis	*Difference: Budget and Actual for Budget Period
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)
Total outflows	(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.

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

(in thousands of currency units)	Original Biennial Budget Year	Target Budget for 1st Year	Revised Budget in 1st Year	1st Year Actual on Comparable Basis	Balance Available for 2nd Year	Target Budget for 2nd Year	Revised Budget in 2nd Year	2nd Year Actual on Comparable Basis	<i>*Difference: Budget and Actual for Budget Period</i>
NET CASH FLOW	X	X	X	X	X	X	X	X	X

Extract From Notes to the Financial Statements of Government C

Staff Comment – subject to IPSASB decisions on retention or otherwise of all or some of the encouragements on external assistance and third party payments, further amendments will be made to this Appendix.

Assistance Provided by Non-Governmental Organizations (NGOs) (Paragraph 2.1.9864)

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
Grant Funds	X	X	X	-
Loan Funds	-	-	-	-
Total	X	X	X	-

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
	NGO 1	X	X	-	-	-	X	X
NGO 2	-	-	X	-	-	-	X	-
NGO 3	X	X	X	-	-	-	X	X
Total	X	X	X	-	-	X	X	X
USD	X	X	X	X	-	X	X	X
Euro	X	X	X	-	-	-	X	X
Yen	-	-	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 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.

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:

	Development Assistance		Emergency Assistance		Other		Total	
	200X	200X-1	200X	200X-1	200X	200X-1	200X	200X-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	-	X	X
Total	X	X	X	X	X	-	X	X
Amount utilized	X	X	X	X	X	-	X	X

	Agency 1		Agency 2		Agency 3		Agency 4	
	200X	200X-1	200X	200X-1	200X	200X-1	200X	200X-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	X	X	X
Total	X							
Currency: US Dollar	X	X	-	-	-	-	-	-
Euro	-	-	X	X	-	-	-	-
Yen	-	-	-	-	X	X	-	-
Other	-	-	-	-	-	-	X	X

Undrawn External Assistance (*Paragraph 2.1.86(e)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	
	200X	200X-1	200X	200X-1	200X	200X-1	200X	200X-1
<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

Closing balance 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	-
By reporting currency								
<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
Total	X	X	-	X	X	X	X	X

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>			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	0—4	5—7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	X	X	X	X

	<u>200X-1</u>			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	0—4	5—7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	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.~~

200X

Debt Service Payments Including Interest

	US				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

200X-1

Debt Service Payments Including Interest

	US				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

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				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

Receipt of Goods and Services (Paragraph 2.1.9~~40~~ 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 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:
 - (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:
- (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. 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 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.

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 Information Included in General Purpose Financial Reports

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. For a full explanation of the Qualitative Characteristics, readers should refer to “The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes. 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, faithful representation, reliability, timeliness, and comparability and verifiability. Pervasive constraints on information included in financial statements are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Understandability

Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. 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. Without assistance

Relevance

Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it 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.~~

Faithful Representation

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts ~~For information to represent faithfully transactions and other events, it should be presented in accordance with the~~ substance of the underlying transactions and other events, activity or circumstance—which is not necessarily always the same as its ~~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 in and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information, 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

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful. 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.

Verifiability

Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

Constraints on Information Included in General Purpose Financial Reports

Materiality

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should justify exceed the cost of providing it. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment- because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation.

Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs. Users reap the majority of

benefits from the information provided by GPFs. However, information prepared for GPFs may also be used internally by management and result in better decision making by management.

In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs. 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

The qualitative characteristics work together to contribute to the usefulness of information. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting. 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

(The following extracts of IPSAS 35 Consolidated Financial Statements (issued January 2015) provide a broad overview of factors to consider in assessing whether one entity controls another entity. For a full understanding of the nature of control readers should refer to IPSAS 35).

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 benefit element (the entity is exposed, or has rights, to variable benefits from its involvement with the other entity) and the power element (the entity has the ability to affect the nature or amount of those benefits through its power over the other entity)~~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 have the potential to benefit from the activities of the other entity as a result of its involvement with that entity, such that the extent of the benefits the controlling entity receives can vary as a result of the other entity's performance.~~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.~~

Benefits

- ~~3~~ The controlling entity's benefits from its involvement with the controlled entity may be only financial, only non-financial or both financial and non-financial. Financial benefits include returns on investment such as dividends or similar distributions and are sometimes referred to as "returns". Non-financial benefits include advantages arising from scarce resources that are not measured in financial terms and economic benefits received directly by service recipients of the entity. Non-financial benefits can occur when the activities of another entity are congruent with, (that is, they are in agreement with), the objectives of the entity and support the entity in achieving its objectives. For example, an entity may obtain benefits when another entity with congruent activities provides services that the first entity would have otherwise been obliged to provide. Congruent activities may be undertaken voluntarily or the entity may have the power to direct the other entity to undertake those activities. Non-financial benefits can also occur when two entities have complementary objectives (that is, the objectives of one entity add to, and make more complete, the objectives of the other entity).
4. The following examples illustrate financial benefits that an entity may receive from its involvement with another entity:
 - (a) Dividends, variable interest on debt securities, other distributions of economic benefits;
 - (b) Exposure to increases or decreases in the value of an investment in another entity;
 - (c) Exposure to loss from agreements to provide financial support, including financial support for major projects;

(d) Cost savings (for example, if an entity would achieve economies of scale or synergies by combining the operations or assets of the other entity with its own operations or assets);

(e) Residual interests in the other entity's assets and liabilities on liquidation of that other entity; and

(f) Other exposures to variable benefits that are not available to other entities.

5. Examples of non-financial benefits include:

(a) The ability to benefit from the specialized knowledge of another entity;

(b) The value to the entity of the other entity undertaking activities that assist the entity in achieving its objectives;

(c) Improved outcomes;

(d) More efficient delivery of outcomes;

(e) More efficient or effective production and delivery of goods and services;

(f) Having an asset and related services available earlier than otherwise would be the case; and

(g) Having a higher level of service quality than would otherwise be the case.

6. Although only one entity can control another entity, more than one party can share in the benefits of that other entity. For example, holders of non-controlling interests can share in the financial benefits such as surpluses or distributions from an entity or the non-financial benefits such as congruence of activities with desired outcomes.

Power

7. An entity has power over another entity when the entity has existing rights that give it the current ability to direct the relevant activities, i.e., the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity. The right to direct the financial and operating policies of another entity indicates that an entity has the ability to direct the relevant activities of another entity and is frequently the way in which power is demonstrated in the public sector.

8. Power arises from rights. In some cases assessing power is straightforward, such as when power over another entity is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. However, public sector entities often obtain power over another entity from rights other than voting rights. They may also obtain power over another entity without having an equity instrument providing evidence of a financial investment. An entity may have rights conferred by binding arrangements. These rights may give an entity power to require the other entity to deploy assets or incur liabilities in a way that affects the nature or amount of benefits received by the first-mentioned entity. The assessment of whether such rights give rise to power over another entity may be complex and require more than one factor to be considered.

9. An entity can have power over another entity even if it does not have responsibility for the day-to-day operation of the other entity or the manner in which prescribed functions are performed by that other entity. Legislation may give statutory bodies or statutory officers powers to carry out their functions independently of government. For example, the Auditor-General and Government Statistician usually have statutory powers to obtain information and publish reports without recourse to government and the judiciary often has special powers to give effect to the concept of

judicial independence. Legislation may also set out the broad parameters within which the statutory body is required to operate, and result in the statutory body operating in a manner consistent with the objectives set by Parliament or a similar body. The existence of statutory powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits. For example, the independence of a central bank in relation to monetary policy does not preclude the possibility of the central bank being controlled. All facts and circumstances would still need to be considered.

10. An entity with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the entity has been directing the relevant activities of the entity being assessed for control can help determine whether the entity has power, but such evidence is not, in itself, conclusive in determining whether the entity has power over the entity being assessed for control. In the case of an entity established with predetermined activities, the right to direct the relevant activities may have been exercised at the time that the entity was established.
11. If two or more entities each have existing rights that give them the unilateral ability to direct different relevant activities, the entity that has the current ability to direct the activities that most significantly affect the nature or amount of benefits from that entity has power over that other entity.
12. An entity can have power over an entity being assessed for control even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an entity that holds only protective rights does not have power over another entity, and consequently does not control the other entity. Because protective rights are designed to protect the interests of their holder without giving that party power over the entity to which those rights relate, an entity that holds only protective rights cannot have power or prevent another party from having power over the entity to which those rights relate.

Rights that Give an Entity Power over another Entity

13. Examples of rights that, either individually or in combination, can give an entity power include but are not limited to:
 - (a) Rights to give policy directions to the governing body of another entity that give the holder the ability to direct the relevant activities of the other entity;
 - (b) Rights in the form of voting rights (or potential voting rights) of another entity
 - (c) Rights to appoint, reassign or remove members of another entity's key management personnel who have the ability to direct the relevant activities;
 - (d) Rights to appoint or remove another entity that directs the relevant activities;
 - (e) Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity;
 - (f) Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity;
 - (g) Rights to veto key changes to the other entity, such as the sale of a major asset or of the other entity as a whole; and

(h) Other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities.

Regulatory control and economic dependence

14. The existence of rights over another entity does not necessarily give rise to power for the purposes of this Standard. An entity does not have power over another entity solely due to the existence of:

(a) Regulatory control; or

(b) Economic dependence.

15. Regulatory control does not usually give rise to power over an entity for the purposes of this Standard. Governments and other public sector bodies, including supranational bodies, may have wide ranging powers to establish the regulatory framework within which entities operate, to impose conditions or sanctions on their operations and to enforce those conditions or sanctions. For example, governments and other public sector bodies may enact regulations to protect the health and safety of the community, restrict the sale or use of dangerous goods or specify the pricing policies of monopolies. However, when regulation is so tight as to effectively dictate how the entity performs its business, then it may be necessary to consider whether the purpose and design of the entity is such that it is controlled by the regulating entity.

16. Economic dependence, alone, does not give rise to power over an entity for the purposes of this Standard. Economic dependence may occur when:

(a) An entity has a single major client and the loss of that client could affect the existence of the entity's operations; or

(b) An entity's activities are predominantly funded by grants and donations and it receives the majority of its funding from a single entity.

17. An entity may be able to influence the financial and operating policies of another entity that is dependent on it for funding. However, a combination of factors will need to be considered to determine whether the economic dependence is such that the economically dependent entity no longer has the ultimate power to govern its own financial or operating policies. If an economically dependent entity retains discretion as to whether it will take funding from an entity, or do business with an entity, the economically dependent entity still has the ultimate power to govern its own financial or operating policies. For example, a private school that accepts funding from a government but whose governing body has retained discretion with respect to accepting funds or the manner in which those funds are to be used, would still have the ultimate power to govern its own financial or operating policies. This may be so even if government grants provided to such an entity requires it to comply with specified conditions. Although the entity might receive government grants for the construction of capital assets and operating costs subject to specified service standards or restrictions on user fees, its governing bodies may have ultimate discretion about how assets are used; the entity would therefore control its financial and operating policies. It is also important to distinguish between the operations of an entity and an entity itself. The loss of a major client might affect the viability of the operations of an entity but not the existence of the entity itself.

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 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) 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.~~
- ~~(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”² (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.~~

~~(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.~~

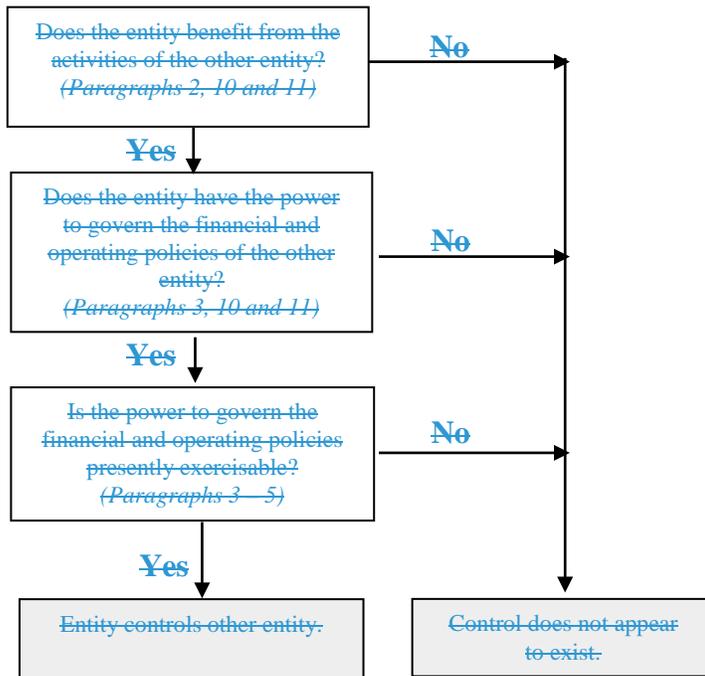
~~(c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.~~

~~(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.~~

² “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.

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.~~

Appendix 6 – Accrual IPSASs and Recommended Practice Guidelines on Issue as at...Date

Entities preparing to migrate to the accrual basis will need to progressively build the information and systems necessary to comply with these IPSASs prior to the formal adoption of the accrual IPSASs

Staff comment: Subject to IPSASB approval this listing will be developed to identify issue date and latest update of each item.

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

IPSAS 1—Presentation of Financial Statements

IPSAS 2—Cash Flow Statements

IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors

IPSAS 4—The Effects of Changes in Foreign Exchange Rates

IPSAS 5—Borrowing Costs

IPSAS 6—Consolidated and Separate Financial Statements (Withdrawn)

IPSAS 7—Investments in Associates (Withdrawn)

IPSAS 8—Interests in Joint Ventures (Withdrawn)

IPSAS 9—Revenue from Exchange Transactions

IPSAS 10—Financial Reporting in Hyperinflationary Economies³²⁵

IPSAS 11—Construction Contracts

IPSAS 12—Inventories

IPSAS 13—Leases

IPSAS 14—Events after the Reporting Date

IPSAS 15—Financial Instruments: Disclosure and Presentation (Withdrawn)

IPSAS 16—Investment Property...

IPSAS 17—Property, Plant, and Equipment

IPSAS 18—Segment Reporting

IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets

IPSAS 20—Related Party Disclosures

IPSAS 21—Impairment of Non-Cash-Generating Assets

IPSAS 22—Disclosure of Financial Information about the General Government Sector

IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)

IPSAS 24—Presentation of Budget Information in Financial Statements

IPSAS 25—Employee Benefits

IPSAS 26—Impairment of Cash-Generating Assets

IPSAS 27—Agriculture

IPSAS 28—Financial Instruments: Presentation

IPSAS 29—Financial Instruments: Recognition and Measurement

IPSAS 30—Financial Instruments: Disclosures

IPSAS 31—Intangible Assets

[IPSAS 32—Service Concession Arrangements: Grantor](#)

[IPSAS 33—First Time Adoption of Accrual Basis International Public Sector Accounting Standards](#)

[IPSAS 34—Separate financial statements](#)

[IPSAS 35—Consolidated Financial Statements](#)

[IPSAS 36—Investments in Associates and Joint Ventures](#)

[IPSAS 37—Joint Arrangements](#)

[IPSAS 38—Disclosure of Interests in other entities](#)

[Cash Basis IPSAS—Financial Reporting Under the Cash Basis of](#)

[Recommended Practice Guidelines \(RPGs\)](#)

[RPG 1—Reporting on the Long-Term Sustainability of an Entity's Finances](#)

[RPG 2—Financial Statement Discussion and Analysis](#)

[RPG 3—Reporting Service Performance Information](#)