

## Agenda Item 2: Cash Basis IPSAS Review

Paul Sutcliffe

IPSASB Meeting

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# Objective and Scope of Review

**Project Brief: March 2015. Issues Paper: June 2015**

## **Objectives of Review and ED:**

- Reduce Obstacles to adoption with respect to:
  - Consolidation, External Assistance, Third Party Payments
- Undertake high level “housekeeping” review
  - Ensure Cash Basis IPSAS not contrary to accrual IPSASs except to reflect cash basis
- Clarify role of Cash Basis IPSAS in IPSASB standards setting strategy
  - Stepping stone to accrual IPSASs
- **Task Based Group (TBG) appointed in May 2015**
  - Abdullah Yusuf, Andreas Bergmann, Wan Selamah Wan Sulaiman
- **This session review 1<sup>st</sup> draft ED & directions for further development**

# Agenda Material and Process

- **Agenda material:**
  - Issues Paper (agenda Item 2.1)
  - First draft ED: Agenda item 2.2 (a) & 2.2 (b)
- **Major areas of amendments proposed:**
  - Part 1 & 2: Consolidation, 3<sup>rd</sup> party payments, external assistance , BC
  - Part 2: extra-ordinary items, entities migrating to accrual, BC, Appendices 5 & 6
- **Proposed process this session:**
  - General Comments/Issues (issues paper 2.2 pages 2-4)
    - Format/Structure of ED & broad drafting approach
  - Work through draft ED section by section

# Format of ED & some pervasive revisions

(Issues paper 2.1 pages 2-4)

- **Format/Structure of ED: only proposed amendments identified**
  - June agenda papers: Cash Basis IPSAS annotated for broad areas of amendment
- **Updated for Conceptual Framework and recent IPSASs**
  - Objectives, QCs (text & Appendix 4 - sequence of QCs as per Cash Basis IPSAS)
  - Role of IPSAS 33 in Part 2 section 2, Appendix 5 Control, Appendix 6 IPSASs & RPGs
- **Edit type amendments:**
  - *should Vs. shall*, reporting entity & economic entity, GPFS = fin. statements
- **Appendix 1 and 2: illustrations of requirements and encouragements**
  - Appendix 1 updated.
  - Appendix 2 not updated – subject to decisions on external assistance & 3rd party payment)

# The ED: Introductory material & Objective of the IPSAS

(Agenda item 2.2(a) pages 2-9)

- **Introductory material** – based on ED 56 style
  - Revisit at end
  - SMCs (update during & end of session)
  - Exec summary: IPSASB review periodically & consider as update accrual IPSASs
- **Contents** (see 2.2(a) pages 6&7)
  - Updated but further updates following this meeting
- **Part 1 Objective of IPSAS – updated** (see 2.2(a) page 9)
  - Objectives of financial reporting
  - Encourage transition to accrual basis, role of cash basis IPSAS & Study 14
  - Drafting: Objective paras not included (and numbered) as a section of IPSAS

# Cash Basis Part 1 – 1.1 Scope & 1.2 The Cash Basis

(Agenda item 2.2(a) pages 10-11)

- **Para 1.1.2 -new approach re entities for which IPSASs designed (ED56)**
  - New Para 1.1.2
  - Consequentials: Paras 1.1.5 to 1.1.7 deleted
  - Consequentials: Definition of GBE deleted from para 1.2.1
    - Government trading enterprise, crown corporation, or similar terms used in text
- **Para 1.1.3: update to better align with users identified in Framework**
- **Para 1.1.4: update to reflect consolidation is encouraged in Part 2**
  - No change to paras 1.2.2 to 1.2.9 (explanations of other definitions)

# Cash Basis Part 1 – 1.3 Presentation & Disclosure

(Agenda item 2.2(a) pages 12-13)

## Definitions

- **Para 1.3.1: Update materiality (Framework) & economic entity (IPSAS 35)**
- **Paras 1.3.2 -1.3.5:**
  - Explanation of eco entity moved from Section 6 to 1.3.2 – 1.3.4
  - Para 1.3.5: Added to include explanation from IPSAS 35 (IPSAS 35, para 17)
    - (No change to old paras 1.3.2 & 1.3.3: explain financial statements & materiality)

## Financial Statements

- **Para 1.3.6 (old 1.3.4): To reflect change to 3<sup>rd</sup> party payments in 1.3.24**
  - Only disclose if 3<sup>rd</sup> party payments made by member of same economic entity as recipient
  - Para 1.3.7: Consequential change re 3<sup>rd</sup> party payments
  - No change to old paras: 1.3.8–1.3.16 (info in notes & in stat'ment cash receipts & payments)

# Cash Basis Part 1 – 1.3 Presentation & Disclosure

(Agenda item 2.2(a) pages 14-17)

- **Classification - Paras 1.3.18 and 1.3.19**
- Disclosure of external assistance in cash not required, but may qualify as a separate class
  - (No change to old paras 1.3.20 to 1.3.23 – reporting on a net basis)

## 3<sup>rd</sup> Party payments

- **Para 1.3.24: delete req'ment to disclose payments by “external” 3<sup>rd</sup> parties**
  - Only disclose if 3<sup>rd</sup> party payments made by member of same economic entity as recipient
  - 1.3.27 – 1.3.28 – consequential.

## Accounting Policies (page 17)

- **Para 1.3.32 & 1.3.33: update QCs for Framework**
  - Note retained sequence of cash Basis IPSAS
  - No change to paras 1.3.34 to 1.3.38:  
(Describe major accounting policies in notes, any encouraged disclosures must comply with QCs)

# Cash Basis Part 1 – 1.4 Consistency of Presentation

(Agenda item 2.2(a) pages 18- 19)

- (No changes to paras 1.4.1 to 1.4.12: Reporting Period, Authorization Date, Info About Entity, Restrictions on Cash Balances and Access to Borrowing)

## Consistency of presentation

- **Para 1.4.13: Update to align with current IPSAS 1** (IPSAS 1, para 42)
  - 1.4.15 consequential
  - No changes to para 1.4.16-1.4.20: comparative information

## Identification of financial statements

- **Para 1.4.23: Consequence of proposed change to foreign exchange**
  - Para 1.4.25 consequential
  - Discuss further later in session

# Cash Basis Part 1 – 1.5 Correction of errors

(Agenda item 2.2(a) page- 20)

## Correction of Errors

- **Para 1.5.2: to clarify that relates to error of a prior period**
  - 1.5.3 consequential amendment
  - Current IPSAS 3 includes more detailed guidance and additional disclosures
  - Staff concerned amendments “overwhelming” & not fit with limited scope review
    - (See agenda paper 2.1, page 13 and Attachment 2, pages 22 - 24)

# Cash Basis Part 1 – 1.6 Consolidation

(Agenda item 2.2(a) pages 21– 26. Part 2: pages 8-11)

## Overview of major changes to Part 1 and Part 2 of the IPSAS

- **Part 1: Delete requirement that controlling entities required to present fin. statements that consolidate all controlled entities, subject to exceptions**
- **Apply consolidation processes when prepare consol. fin statements**
  - Use term “consolidated financial statements” only for “full” consolidation
  - Update definitions and disclosures for IPSAS 35
- **Part 2: “Full” consolidation encouraged, exceptions revised to reflect IPSAS 35**
  - If not “full” consolidation, budget sector, GGS, or other group statements encouraged
  - Appendix 5 “Establishing Control of Another Entity”, revised to draw on IPSAS 35

# Cash Basis Part 1 – 1.6 Consolidation

(Agenda item 2.2(a) pages 21– 26.)

## Amendments – Part 1 of IPSAS re consolidation

- Para 1.6.1 update definitions and disclosures for IPSAS 35
- Paras 1.6.5-1.6.8, delete requirement for consolidated fin. Statements
- Para 1.6.2: apply consolidation processes if prepare consol. fin. statmnts
- Para 1.6.3: use term “*consolidated financial statements*” only for full consolidation
  - In other cases a term that clearly describes the economic entity
  - Para 1.6.4 – 1.6.10: consequentials

- **Para 1.6.11: Consolidation procedures retained**

- 1.6.13: amended to acknowledge budget sector or GGS as economic entity

- **Para 1.6.15: Updated to require disclosure of composition of eco entity/group**

- **1.6.16: notes transitional relief (3 years) for intra-entity eliminations**

# Cash Basis Part 1 – 1.7 Foreign Currency

(Agenda item 2.2(a) pages- 27 & 28)

## Foreign currency

- **Para 1.7.1: include *presentation currency & spot rate***
  - Refinements to better align existing definitions to IPSAS 4 – does not include all definitions
- **Paras 1.7.2 – 1.7.8: To refocus requirements on presentation currency.**
  - Note does not incorporate all requirements of IPSAS 4 as apply to cash basis
  - Does not require initial recognition in functional currency and translation to presentation currency if different.
  - Staff concerned that amendments “overwhelming” & not fit with limited scope review
    - See agenda paper 2.1, pages 13&14 and Attachment 3, pages 25-27)
    - Attachment 3, para1.7.10 should refer to *functional currency* rather than *reporting currency*

# Cash Basis Part 1 – 1.8 Effective Date

(Agenda item 2.2(a) page- 29)

- **Para 1.8.1 to update effective date**
  - Para 1.8.2 explains changes
  - Transitional provisions for consolidation remains unchanged
  
- **Section 9: Presentation of Budget Information in Financial Statements**
  - Section 9 and its effective date remain unchanged.

# Cash Basis Part 1 – 1.10 Recipients of External Assistance

(Agenda item 2.2(a) pages 30 - 35)

- **Requirements for disclosure of external assistance deleted**
  - Delete paras 1.1.10 to 1.10.34 (except for 1.10.21 & 1.10.22: goods & services)
  - Certain requirements recast as encouragements in part 2 of the IPSAS
    - External assistance in cash, 3<sup>rd</sup> party payments & undrawn assistance
      - See Agenda item 2.1 page 17-21 Attachment 1
- **IPSASB to discuss whether to retain any encouragements in Part 2**
- **Paras 1.10.21 & 1.10.22 retained and extended**
- (If disclose value of goods & services received, disclose basis of valuation)
  - Part 2 paras 2.1.90, 2.1.98 encourage disclosure goods & services (ext. assistance & NGO)
  - Part 2 para 2.1.33 encourage disclosure of assets, liabilities, revenue, expenses
- **Effective date and Transitional provisions** (paras 1.10.28 & 1.10.29)
  - ED: proposes delete transitions and no change to effective date

# Cash Basis Part 1 – Basis for Conclusions & Appendix 1

(Agenda item 2.2(a) pages 36 - 41)

- **Basis for Conclusion to Part 1** (Agenda item 2.2(a) pages 36 - 41)
  - Para numbering...
  - Some repetition of Executive Summary (pages 4-6), but BC retained in final IPSAS
- **Appendix 1 Illustratives** (Agenda item 2.2(a) pages 42 - 61)
  - Updated for amendments made to Part 1
  - Appendix 1 A: whole-of-government:
    - Presents fully consolidated fin. statements as encouraged in Part 2
    - Includes encouraged disclosure: 3<sup>rd</sup> party payments & external assistance (page 52-54)

# Cash Basis Part 2 – Additional Encouraged Disclosures

## Cash Basis IPSAS Part 2– Agenda item 2.2(b)

- **Major amendments**
  - Update introduction
  - Delete extraordinary items
  - Update to encouraged disclosures of recently issued IPSASs
  - Include encouragements: consolidation, 3<sup>rd</sup> party payments, external assistance
  - Update section 2.2 :...entities intending to migrate to accrual basis
  - Appendix 4 *Qualitative Characteristics* (update for Framework)
  - Appendix 5 *Control* (revised for IPSAS 35 ), Appendix 6 notes IPSASs & RPGs

# Cash Basis Part 2 –Introd'n, Definitions, Extraordinary items

(Agenda item 2.2(b) pages 1 - 5)

- **Introductory paras**
  - Amended to outline role of Part 2
- **Para 2.1 –Definitions revised**
  - Delete extraordinary items and ordinary activities – disclosure not encouraged
  - Delete financial assets – not referred to in the text.
  - No changes to paras 2.1.2–2.1.5: future eco benefits/service potential & going concern
- **Delete encouragement to disclose extraordinary items (Para 2.1.6 – 2.1.14)**
  - Such disclosure not required or encouraged by accrual IPSASs
  - No change proposed to paras 2.1.15 to 2.1.32:
  - *(Administered transactions, Disclosure of classes of cash flows, Related party disclosures)*
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## Cash Basis Part 2 – Assets, Liab, Rev, Exp & cf budgets (Agenda item 2.2(b) pages 6- 7)

- **Para 2.1. 33 – 2.1.36: updated to encompass recent IPSASs and RPGs**
  - Para 2.1.33 – updated to encompass note disclosure of revenue and expenses
  - Paras 2.1.34 – 2.1.36 consequentials
  - Paras 2.1.35 and 2.1.36 identify recent IPSASs and RPGs
    - Could also refer to Appendix 6, which identifies all IPSASs and RPGs

(No change to Paras 2.1.37 – 2.1.41 – Comparison with Budgets)

# Cash Basis Part 2 – Consolidated Financial Statements

(Agenda item 2.2(b) pages 8 - 11)

- **Para 2.1.41 encourages “full” consolidation subject to exceptions**  
**Para 2.1.42 encourages budget, GGS, other sector if not full consol’n**
  - Para 2.1.43 identifies exceptions as per IPSAS 35
  - Para 2.1.44 - Para 2.1.50 Consequential explanations<sup>3</sup>
  - Para 2.1.50 notes exclusion for controlled entities subject to long term restrictions
- **Paras 2.1.51 & 2.1.52: Disclosures updated for IPSAS 34, 35, 38**
  - Drawn from IPSAS 38 (para 14 b,c) & IPSAS 34 (para 20 a,c) (disclosures not in IPSAS 35)
- **Paras 2.1.54 - 2.1. 58 Information about acquisitions and disposals**
  - No substantial changes
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# Cash Basis Part 2 – Joint Ventures & 3<sup>rd</sup> Party Payments

(Agenda item 2.2(b) pages 12 - 13)

## Joint Ventures

- **Paras 2.1.59 –2.1.60: Updated for issue of IPSASs 36&37**
  - Acknowledges IPSAS 8 replaced by IPSASs 36 &37
  - Joint arrangements is the umbrella term
  - No changes proposed to old paras 2.1.51–2.1.63: Reporting in hyperinflationary economies
    - (subject to IPSASB decision re approach to foreign currency)

## 3<sup>rd</sup> Party Payments

- **Para 2.1.74: to encourage note disclosure of certain 3<sup>rd</sup> party payments**
  - Payments by 3<sup>rd</sup> parties not part of economic entity
  - Encourages note disclosure, rather than as separate column on face of statement.
  - Paras 2.1.75 – 2.1.78 explanations (2.1.76 clumsy drafting)

## Cash Basis Part 2 – External Assistance & NGOs

(Agenda item 2.2(b) pages 14 - 22)

- **Focus on assistance in cash, 3<sup>rd</sup> party payment & undrawn assistance**
  - Paras 2.1.79 - 2.1.83: key definitions and explanations from Part 1
- **Para 2.1.86 – The encouraged disclosures – separately in notes:**
  - Total assistance in form of cash (unless disclosed on face) & 3<sup>rd</sup> party payments;
  - Total assistance in form of loans and grants;
  - Purposes received and purposes used by class
  - Balance of undrawn assistance loans&grants available when satisfaction of conditions likely
  - Para 2.1.94 – 2.1.95: Encouraged to disclose assistance as goods and services
  - Para 2.1.98 – 2.1.99: Encouraged to disclose assistance from NGO's
- **Encouragements significantly narrowed – not encourage disclosure of:**
  - Part 1 requirements: non-compliance with terms & conditions, debt rescheduled & cancelled
  - Part 2 encouragement of amount provided by each provider, terms and conditions of agreements, guarantees on loans and performance, repayment terms and conditions.
- **Alignment with IPSAS 23**

# Cash Basis Part 2 –External Assistance & IPSAS 23

(Agenda item 2.2(b) pages 14 - 22)

- IPSAS 23 - requirements
- Initial recognit'n of asset at FV
- Rev= increase net asset
- Disclosures of total revenue
  - showing taxes & transfers by class
  - receivables
- Disclose amount of liabilities
  - Re assets subject to conditions &
  - Re concessionary loans
  - Forgiven & Advance receipts
- Disclose accounting policies.
  - basis of determining FV
  - info about taxes that cannot measure
  - Nature/type: class bequests, gifts, donations, goods-in-kind
- Cash Basis encouragements
- Initial recognition of amount of cash external assistance
- Disclose amount received:
  - as cash & as 3<sup>rd</sup> party payment
  - as loans and as grants
- Disclose by significant class:
  - purpose for which received and used
- Disclose undrawn assist'nc available (if satisfaction of terms conditions likely)
  - showing loans & grants
- Disclose value of goods& services (& basis of valuation if disclose)
- Same for assistance from NGO's

## Cash Basis Part 2 – Entities migrating to accrual (Agenda item 2.2(b) pages 23 - 25)

- **Paras 2.2.3 – 2.2.10 updated to note:**
  - Cash Basis encouragement for budget or GGS sector when not full consolidation does not align with accrual IPSAS, which requires full consolidation
  - Note revisions necessary in para 2.2.3 and 2.2.4 to reflect that:
    - 2.2.3....When an **investment** entity adopts the accrual basis in accordance with the accrual IPSASs it will not consolidate **its controlled** entities in these circumstances.*
    - 2.2.4 This standard does not **exclude** such investment entities from **the encouragement to** prepare consolidated financial statements under the cash basis...*
  - 2.2.7&2.2.8 Note req'ments and encouragements that differ from accrual IPSASs
    - Notes may be useful for special purpose needs as well as general purpose
  - 2.2.9 – 2.2.10: Role of IPSAS 33 & IPSAS33 Appendix A (transitional provisions)
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# Cash Basis Part 2–Basis for conclusions & Illustration

(Agenda item 2.2(b) pages 26- 64)

- **Basis for Conclusions** (pages 26- 28)
  - Some repetition of Part 1 BC re consolidation of “interim” group & external assistance
- **Appendices – to be updated**
  - Appendix 2 (pages 29 - 45): to be updated for IPSASB decisions at this meeting
  - Appendix 3 (pages 46 – 50): Summary IPSAS 2 – to be checked/updated for terminology
  - **Appendix 4** (pages 51 – 64): QCs updated for Framework (note sequence of QCs)
    - F/work: relevance, faithful rep., understandability, timeliness, comparability, verifiability
  - **Appendix 5** (pages 51 – 64): Control of Another Entity – Updated for IPSAS 35:
    - drawn from text of IPSAS 35 and AG re regulatory control and economic dependence
  - **Appendix 6** (pages 51 – 64): List of IPSASs and RPGs currently on issue
    - Subject to IPSASB agreement, identify issue date and latest update

# The ED: Introductory material

(Agenda item 2.2(a) pages 2-8)

- **Revisit introductory material**
- **Introductory material**
  - Objective of Exposure Draft (page 2 and page 8)
  - SMCs
  - Exec summary: IPSASB review periodically & consider as update accrual IPSASs
- **Contents Page**
- **Other**

## Future meetings

- Update Draft ED for decisions at this meeting
- Update Appendix 2 & other appendices
- Update Contents pages
- Approve in March 2016

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# Cash Basis Part 2 – Consolidated Financial Statements

(Agenda item 2.2(b) pages 8 - 11)

- **Para 2.1.41 encourages “full” consolidation subject to exceptions**  
**Para 2.1.42 encourages budget, GGS, other sector if not full consol’n**
  - Para 2.1.43 identifies exceptions as per IPSAS 35
  - Para 2.1.44 - Para 2.1.50 Consequential explanations<sup>3</sup>
  - Para 2.1.50 notes exclusion for controlled entities subject to long term restrictions
- **Paras 2.1.51 & 2.1.52: Disclosures updated for IPSAS 34, 35, 38**
  - Drawn from IPSAS 38 (para 14 b,c) & IPSAS 34 (para 20 a,c) (disclosures not in IPSAS 35)

## **Consider adding additional disclosure to reflect IPSAS 38 para 19 (a,b,c)**

- *The name of any controlled entity that has cash balances material to the reporting entity which are not attributable to the controlling entity, the domicile and legal form of the controlled entity and the jurisdiction in which it operates, and the proportion of ownership interests held by non-controlling interests*

- **Paras 2.1.54 - 2.1. 58 Information about acquisitions and disposals**
  - No substantial changes