

INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE

Financial Reporting of Development Assistance by Recipients
Directions for Development of an Exposure Draft

Objective

The Project is to be developed in two stages as follows.

Stage 1

The objective of Stage 1 is to develop an IPSAS dealing with accounting for development assistance received by governments and public sector entities which adopt the cash basis of accounting as specified by IPSAS *Financial Reporting Under The Cash Basis Of Accounting*. This will include issues related to presentation, classification and disclosure on the face of the statement of cash receipts and payments as specified by the cash basis IPSAS, and additional note disclosures, including note disclosures about liabilities and non-cash assets arising from development assistance.

Issues identified during Stage 1 of the project which may need to be considered in Stage 2 (the development of an accrual IPSAS – see below) are to be logged and, as appropriate, made available to the Non-Exchange Revenue Steering Committee and/or the PSC.

Stage 1 of the project is to be actioned in 2003 following the finalisation of the cash basis IPSAS.

Stage 2

Stage 2 of the project is to develop an IPSAS dealing with accounting for development assistance within the accrual basis of accounting. This stage of the project will not be progressed until the PSC has agreed the Exposure Draft to be developed by the Non-Exchange Revenue Steering Committee.

Stage 2 of the Project will build on the work of the Non-Exchange Revenue Steering Committee and will consider any matters identified during the Stage 1 of the project which are relevant to the disclosure of development assistance under the accrual basis of accounting.

Project Brief: Stage 1

The remainder of this Project Brief deals only with Stage 1 of the project.

Process

This project will be progressed at Committee level with the assistance of the Project Advisory Panel (PAP) comprising representatives of the Working Group, OECD-DAC and other key representatives of the donor community and recipient governments and government agencies. A representative of the IASB should also be

invited to join the PAP. The role of the PAP will be to provide input on key issues to be dealt with by an IPSAS on this topic, and to operate as a sounding board to staff in the exposure draft development process. In the course of development of the Exposure Draft and IPSAS, it is proposed that staff/PSC members as appropriate meet with the PAP or key members thereof.

Project Timetable

The following timetable is anticipated:

- 2003 Develop draft Exposure Draft (ED) for review by PSC
- 2003 Finalize ED in the fourth quarter of 2003 and issue ED for comment in late 2003/early 2004
- 2004 Review responses during the second and third quarters of 2004 and finalize IPSAS by the end of 2004/early 2005
- 2004 Issue IPSAS during first half of 2005

This timetable is predicated on the PSC securing additional staff resources (appointing a suitable consultant) and work commencing on the project during the first quarter of 2003.

Matters to be addressed

The following are not intended to be an exhaustive list. The PSC acknowledges that as the Exposure Draft is developed the PAP and/or staff may identify additional matters that need to be addressed and may identify refinements and amendments to the following.

Issues related to the recognition and presentation in the financial statements of the recipient entity of grants, donations, transfers, loans, and other forms of development assistance under the cash basis will be considered within the framework established by the recently issued cash basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*. In addition, the PAP will need to identify the circumstances which will “trigger” a note disclosure.

The first draft of the Exposure Draft prepared for PSC review should include:

- (1) **A definition of “development assistance”** or similar relevant term which encompasses “aid” provided by the MDBs and other “donors”.

The definition is to be sufficiently broad to encompass all forms of development assistance including:

- Non-exchange transfers of monetary or non-monetary assets;
- development assistance made by way of an exchange transaction; and
- loans.

While not dealing with accrual accounting issues during this phase of the project it is anticipated that any definition developed will also be applicable to entities reporting under the cash basis and the accrual basis.

In developing and testing the definition, staff and the PAP will consider key issues and practices. In particular, the financial reporting implications of the following for individual and consolidated reporting entities are to be drawn out:

- re-lending assistance through layers of government; and
- assistance provided to Non Government Organizations as part of a broad assistance package agreed with national or regional governments.

(2) Identification of the circumstances in which development assistance is to be disclosed by the recipient as having been “received” or “made available” during the reporting period.

In developing guidance on this matter, the draft ED will consider such matters as:

- the requirements of IPSAS *Financial Reporting Under The Cash Basis of Accounting* for recognition and presentation on the face of the statement of cash receipts and payments;
- when control of the assistance arises;
- whether disclosure of assistance that is “available” (controlled) but not yet drawn on should be made; and
- how the impact of any eligibility criteria that need to be satisfied, and any conditions and restrictions on use of funds, are to be dealt with.

This aspect may well be developed by way of a requirement to disclose all assistance promised with separate disclosures of amounts used, amounts currently available for use and amounts available for use subject to satisfaction of eligibility criteria and/or certain conditions.

(3) Requirements relating to the basis of measurement of cash and non-cash assistance that are disclosed.

It is anticipated that the measurement of the amount of cash assistance will be straight forward, subject to resolution of issues related to the impact of conditions and restrictions on the use of cash and when control of cash arises. In developing aspects of the exposure draft that relate to the measurement of non-cash assistance, guidance in existing IPSASs including in particular IPSAS 17 *Property Plant and Equipment* will be adopted where appropriate.

(4) Detailed disclosure requirements.

The Exposure draft will include detailed disclosure requirements including at least those outlined below. The disclosure requirements will be directed at enabling the entity to be accountable for, and users to be able to identify:

- the full range of assistance that has been made available to the entity during the reporting period;
- the extent to which assistance provided has been expended (cash) or used/consumed/dissipated (non-cash) during the period as intended;
- amounts that remain as “available for use” in future periods, the nature of those amounts and whether there are conditions and restrictions on their use; and

- the amount of financial obligations to repay assistance received during the existing or prior periods, and the likely timing of those repayments.

To satisfy these broad disclosure objectives, the first draft of the Exposure Draft should include the following disclosure requirements:

- the total amount of assistance, identifying the amount provided directly to the entity and the amount provided indirectly via settlement by a third party;
- the amount of assistance provided by way of loan, tied/conditional grant and/or by other forms of assistance;
- the amount and classification of any assistance recognised in the statement of cash receipts and payments as cash controlled by the entity and the amount displayed as third party settlements;
- the amount of assistance provided by way of cash and the fair value of non-monetary assistance provided. In the preparation of the ED, the PAP will be engaged in identifying whether there are issues specific to the nature of assistance or specific to the donor/recipient community that need to be addressed in determining the fair value of non-monetary assistance;
- the amount provided by Multilateral Development Banks, by other international agencies and by domestic donors (such as another level of government). A requirement for the disclosure of the identity of the 5 major providers of assistance and the amount provided by each should be included in the first draft for consideration by the PSC and the PAP;
- the amount of assistance expended during the period, identifying whether the amounts were expended on services, or acquisition of property, plant and equipment; or acquisition of other non-current assets;
- whether expenditures during the period were made in accordance with conditions specified by the “donor” in respect of assistance provided. (The requirement for a note disclosure of whether conditions are satisfied would mean that this would be subject to audit);
- the amount of assistance received during the period and unexpended as at reporting date and the amount of such assistance that is subject to undischarged conditions and any amounts which are to be returned because they were not expended; and
- the cumulative amount of assistance received by way of loan funds and yet to be repaid, with a schedule of repayments due within 1 year, 2-5 years, more than five years. This reflects the schedule in IPSAS 13 *Leases* in respect of the minimum lease payments due under non-cancelable operating leases. Staff will seek PAP input on whether such disclosures are consistent with enhanced accountability and transparency in financial reporting and are useful to key constituent groups in the donor community. Staff will also seek to input on whether the disclosures should identify separately the amount of principal and accumulated interest.

Relationship to the Cash Basis IPSAS

The PAP will provide the PSC with their preliminary views on whether the requirements relating to reporting of development assistance under the cash basis should be issued as a stand alone IPSAS (under the cash basis series) or should be integrated as a separate section in the omnibus cash basis IPSAS.