



INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE: 21 OCTOBER 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: EXTERNAL ASSISTANCE

ACTION REQUIRED

The Board is asked to:

- **Note** the actions taken to encourage field testing of and additional responses to Exposure Draft ED 24 – Disclosure Requirements for Recipients of External Assistance;
- **Provide** a verbal update on actions undertaken in their own jurisdictions to this end and anticipated results; and
- **Provide** guidance on the process for further development of an IPSAS.

AGENDA MATERIAL

	Pages
14.2 Correspondence to OECD-DAC	14.3 – 14.4
14.3 OECD-DAC Proposed work program for 2006	14.5 – 14.8

BACKGROUND

The International Public Sector Accounting Standards Board (IPSASB) issued the ED “Disclosure Requirements for Recipients of External Assistance” in February 2005 for public comment. Comments were due by 15 June 2005. Thirty responses have been received to date. Members undertook a preliminary review of responses at the July 2005 IPSASB meeting and agreed that field testing results should be considered prior to further progress. The Chair wrote to OECD-DAC to encourage further field testing (see attached) and prepared a standard letter for each member to use in contacting donor and other relevant organizations in their jurisdictions to encourage field testing. That letter was circulated to all members in August 2005. Staff have also provided an update on IPSASB deliberations for the Developing Nations Permanent Task Force (DNPTF) and sought additional assistance from members of the Task Force in ensuring field testing takes place. DNPTF staff have been briefed on IPSASB deliberations and will support DNPTF engagement in this process. The DNPTF is meeting in mid October and a verbal update will be provided at the forthcoming IPSASB meeting.

The OECD Observer has advised that Field testing and comments on ED 24 have now officially been incorporated into the OECD-DAC Joint Venture’s (JV) work program and that the JV intend to get back to us soon. The JV proposed work program for 2006 which includes support for field testing of ED 24 is included at Agenda item 14.3 was considered by the JV in mid October and confirmed. The World Bank Observer and USA member will follow up with the Multilateral Development Banks (MDB) Financial Management Harmonization Task force to seek additional support for field testing.

Members also agreed that additional submissions on the ED should be encouraged. The Chair and staff have encouraged additional submissions in presentations made to the Intergovernmental Colloquium and TFHPSA. In addition, staff have contacted members of the Consultative Group to seek additional responses (and encourage field testing) and have contacted conveners of ESAAG, World Bank and other seminars held in Africa to encourage participants to provide additional responses. Charles Coe, the consultant, has also made contact with individual son the OECD-DAC to this end.

It is proposed that at this meeting we review actions taken and results anticipated and consider future actions. Staff are of the view that following the meeting it may be appropriate to issue a media release encouraging further responses to ED 24, including field test results and noting an extension of time to respond to ED 24. Whether this action is appropriate will of course be influenced by members' expectations about the success of efforts in their jurisdictions.



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5 August 2005

By Email

Mr. Richard Manning
Chairman
OECD Development Assistance Committee
2, rue André Pascal
F-75775 Paris Cedex 16
FRANCE

Dear Mr. Manning,

re: ED 24 “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance”

You may recall that in November 2001 you wrote to the IFAC – PSC (now reconstituted as the International Public Sector Accounting Standards Board (IPSASB)) on behalf of the DAC Task Force on Donor Practices with a request for the IFAC-PSC to develop a standard on Development Assistance. Since then the IPSASB has developed and issued an exposure draft of a proposed IPSAS. Exposure draft ED 24 “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” was issued in early February 2005. This ED was developed after extensive consultation with, and input from, a project advisory panel and the OECD-DAC Joint Venture on Financial Management.

Some 1000 copies of the ED were sent to Finance Ministries, professional accounting bodies, standard setting organizations, international agencies and other interested parties around the world for comment. The ED was also made available for downloading from the IPSASB website, which recorded over 900 downloads.

I am writing to you now to seek your assistance in ensuring that we receive additional input to the development of the IPSAS.

In the process of developing ED 24, I visited the OECD and discussed the draft ED with members of the OECD-DAC Joint Venture on Financial Management. Charles Coe, a consultant acting as a member of my staff at the IPSASB, also participated in discussions with members and staff of the Joint Venture on a number of occasions. At the last meeting we participated in, Joint Venture participants suggested that field testing of the ED would be appropriate, and undertook to initiate limited field testing in countries participating in the Joint Venture. The IPSASB fully supported this initiative of the Joint Venture. Some IPSASB members also made contact with governments in their region to initiate additional field testing of the ED.

Unfortunately, these important field testing initiatives have not generated the results that we all had hoped for. Similarly, despite what appeared to be great interest in the ED and its proposal from the donor and recipient community, the IPSASB has received only 30 responses to date (though responses are still being received) and no field test results. Many respondents supported the objectives of the ED and acknowledged the usefulness of the disclosures proposed. However, a number also expressed concern that the proposals will be too onerous for many of the countries that would benefit from application of the IPSAS.

The IPSASB is not satisfied that it has yet had sufficient input on the proposals in the ED to enable it to move forward to finalize the IPSAS. The IPSASB is of the view that further and more extensive field testing is necessary for this to occur, and that such field testing include both providers of development and other forms of external assistance as well as recipients. Field testing which includes both providers and recipients will enable the IPSASB to make informed decisions about such matters as the availability of, and recipient access to, the information necessary to satisfy the disclosure requirements and whether the proposals themselves are onerous. It will also enable the IPSASB to test the proposed requirements against the goals of the Paris Declaration which seeks to increase reliance on recipient country financial management systems when reporting on the use of external assistance.

I believe we have an opportunity to significantly enhance the accountability and transparency of financial statements in respect of the disclosure of information about external assistance and to promote harmonization of the current multiple reporting requirements to be met by recipients of external assistance. This will facilitate a streamlining and better co-ordination of the accounting systems and processes for reporting to donors for project management purposes and for general purpose financial reports. Appropriate field testing will be significant in enabling us to strike a proper balance between the needs of users of financial statements for detailed information and the difficulties preparers face in gathering and presenting such information.

I would be pleased to discuss with you the means of extending the field testing of the ED to ensure there is adequate coverage of preparers of financial statements subject to this IPSAS (the recipients) and donors who are likely to have a role in providing the information necessary to comply with the IPSAS.

Yours truly,



for
Philippe Adhémar
Chair, IPSASB

Cc Simon Mizrahi

WORK PROGRAMME

1. Following the Paris High Level Forum on Aid Effectiveness (2 March 2005) and in view of the mandate given to the OECD-DAC Working Party on Aid Effectiveness in “**tracking and encouraging progress at the global level among the countries and agencies that have agreed to the Declaration**”, the Joint Venture on Public Financial Management will seek to facilitate the implementation of the Paris Declaration as it relates to public financial management.

2. In particular, the Joint Venture will support activities relating to Public Financial Management issues aimed at (i) fostering implementation of commitments made at the High Level Forums in Rome and Paris, and (ii) sharing PFM knowledge and experiences among donors and partner countries. In doing so, the Joint Venture will coordinate its activities with relevant institutions and bodies established under the auspices of the Working Party on Aid Effectiveness.

WORK PROGRAMME

Scope of activities

3. The work of the Joint Venture will focus on five main areas:

- 3.1 *Monitoring adoption of harmonised frameworks* — Monitoring the adoption of harmonised performance assessment frameworks for public financial management systems, notably the Public Financial Management Performance Measurement Framework developed by the Public Expenditure and Financial Accountability (PEFA) Programme*.
- 3.2 *Good practice in supporting PFM reforms* – Synthesize and disseminate the experiences of partners in the design and implementation of PFM reforms, examine issues relating to the provision of donor support for such reform programs
- 3.3 *Sharing knowledge on training in the area of PFM* — Identify good practices and sharing experiences of harmonisation and alignment in the training in public financial management of relevant actors in the donor community and among partner countries.
- 3.4 *Guidance on monitoring the Paris Indicators*—Offering technical support to the Group on Monitoring the Paris declaration with respect to the refinement of targets, the provision of guidance, the establishment of baselines and the collection and aggregation of information, notably with respect to indicators 2a (reliable country financial management systems) and 5a (use of country public financial management systems). In this context, the Joint Venture will investigate the needs and explore the

* A multi-agency partnership programme, PEFA has developed a Public Financial Management Performance Measurement Framework in consultation with the Joint Venture as a contribution to the collective efforts of many stakeholders to assess and develop essential PFM systems. Having been endorsed by the PEFA members in June 2005, various applications of the Framework are currently on-going or being planned. A review based on these early experiences is planned in 2006. After that date, the PEFA secretariat is expected to continue operating primarily to provide coordinated technical support and review in the implementation of the Framework with the aim of facilitating the dissemination of the Framework, guarantee the consistency of its applications and the credibility of its results.

means to ensure a coherence between indicator 2a and the assessments carried out under the harmonised performance assessment frameworks mentioned under 1.1 above.

- 3.5 *Accounting standards on external assistance* — Follow-up with the International Public Sector Accounting Standards Board¹ on an accounting standard on disclosure requirements for recipients of external assistance.

Working Arrangements

4. In order to carry out efficiently the activities identified above, the Joint Venture will:
- 4.1 Rely upon suitable organisational arrangements to ensure the development of the technical preparatory work required to support the activities identified above. In this respect, it is proposed that:
- a. For the activities described under 3.1, the Joint Venture will rely upon the work carried out by the PEFA programme, and notably its Secretariat.
 - b. For the activities described under 3.2 and 3.3, the Joint Venture will rely upon small informal sub-groups led by a member with outstanding experience in the specific area of enquiry. Subject to the availability of resources, the use of suitably qualified independent consultants may also be considered.
 - c. For the activities described under 3.4, organisational arrangements will depend upon the nature of the assistance demanded by the Group on Monitoring. However, given the technical nature of the potential requests and the need to ensure detailed knowledge on a wide geographical scale, preparatory work is likely to be led by multinational institutions and/or the OECD secretariat.
 - d. For the activities described under 3.5, the Joint Venture will rely upon the work carried out by the secretariat of the IPSAS Board programme with, where appropriate, support from small informal sub-groups led by members and/or the OECD secretariat.
- 4.2 Consider holding meetings in one or two partner countries members subject to their readiness to host such meetings. Prepared by a preceding joint technical mission, such a meeting would aim to hold a debate on (a set of) the issues described under point 3.2 on the basis of one concrete country case. While the meeting would neither aim to produce a full-fledged evaluation nor a comprehensive measurement of progress towards the Paris Declaration indicators, it would provide a useful check against reality and help identifying the actual obstacles against increased alignment and harmonisation. The meeting would therefore offer complementary insights to those provided by the more aggregated monitoring and learning activities undertaken by the Joint Venture.

¹ In November 2001, the OECD wrote to the International Public Sector Accounting Standards Board (IPSASB) with a request for the IPSASB to develop a standard on Development Assistance. Since then the IPSASB has developed and issued an exposure draft of a proposed IPSAS. Exposure draft ED 24 “Financial Reporting under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” was issued in early February 2005. This ED was developed after extensive consultation with, and input from, a project advisory panel and the OECD-DAC Joint Venture on Financial Management.

FORMAL ARRANGEMENTS

5. *Chairing arrangements* — The Group will be co-chaired by representative(s) of donor organisation(s) and a representative of a partner country.
6. *Membership* — The Joint Venture is open to Members of the OECD-DAC Working Party on Aid Effectiveness who have relevant expertise in the area of PFM. Other organisations or representatives may be invited as deemed desirable by the members of the Joint Venture. In particular it is proposed to extend an open invitation for participation to a representative of the PEFA Programme secretariat.
7. *Time frame and reporting procedures* — The co-chairs of the Joint Venture will report to the OECD-DAC Working Party on Aid Effectiveness. Products emerging from the Joint Venture will be forwarded to the Working Party for discussion before they are finalised and disseminated.
8. *Support and finance* — The cost of operating the Joint Venture will be met by the Working Party on Aid Effectiveness. The Joint Venture will prepare a 3 year work programme and budget for consideration and approval by the Working Party. The Joint Venture will receive staff support from the OECD-DAC Secretariat while, if members agree to commission additional work not covered by initial budget, such work will focus on specific tasks that can realistically be done by individual Joint Venture members who have relevant expertise in PFM issues.
9. *Frequency and venue of meetings* — The Joint Venture will convene as often as members deem necessary and feasible. Meetings will generally be held at the OECD in Paris or can be hosted by any member of the Joint Venture, including partner countries. Appropriate use of electronic and remote forms of communication will be made so as to avoid unnecessary meetings.

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OUTPUT-BASED CALENDAR OF ACTIVITIES

Activities	2006	2007	2008
3.1: Monitoring adoption of harmonised frameworks	Review implementation of harmonised PFM performance assessment frameworks	Review implementation of harmonised PFM performance assessment frameworks	Review implementation of harmonised PFM performance assessment frameworks
	Report to WP and provide feedback to PEFA for fine-tuning of framework as may be necessary.	Report to WP and provide feedback to PEFA for fine-tuning of framework as may be necessary.	Report to WP and provide feedback to PEFA for fine-tuning of framework as may be necessary.
3.2: Good practice in supporting PFM reforms	Synthesize experiences of design and implementation of PFM reform programs based around a sample of country case studies	Prepare report and disseminate findings through WP and JV	Prepare Good Practice Note based on findings and feedback from JV.
3.3: Sharing knowledge on training in the area of PFM	Review of experience	Monitoring report	Monitoring report
			Good Practice Notes
3.4: Guidance on monitoring the Paris Indicators	Outputs to be determined in consultation with Group on monitoring.		
3.5: Accounting standard on external assistance	Together with IFAC, develop a framework for extending field testing on proposed standard.	Receive feedback from field tests, propose amendments to ED 24.	