



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 10 MAY 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: EXTERNAL ASSISTANCE

ACTION REQUIRED

Members are requested to:

- **Review** the draft exposure draft “Proposed Amendments to Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” with a view to:
 - (a) confirmation of adoption of this approach as an alternative to a stand-alone ED (and subsequently a stand-alone IPSAS); and if so confirmed
 - (b) approval for its issue and/or directions on areas for further amendment.

AGENDA MATERIAL

	Pages
11.2 History sheet	11.8 – 11.10
11.3 Proposed ED XX, “Proposed Amendments to Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance”	11.11 – 11.68
11.4 Appendix 2 from ED 24	11.69 – 11.71

BACKGROUND

Exposure Draft ED 24, “Financial Reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance” was issued in January 2005 with comments requested by June 15, 2005.

Members reviewed the submissions received on ED 24 during the second half of 2005 and early 2006, and noted that the responses provided mixed messages about whether implementation of the requirements were too onerous. The IPSASB sought assistance of the OECD-DAC JV and certain donor organizations to field test ED 24. However, the anticipated field testing did not occur. After further discussion with constituents, the IPSASB directed staff to prepare a draft ED which retained some of the requirements specified in ED 24 but reclassified a number of others as encouraged (rather than required) disclosures.

At its March 2006 meeting, the IPSASB considered a first draft of a stand alone ED prepared by staff which revised and restructured the disclosures in ED 24 into mandatory and encouraged disclosures on the same principles as adopted for the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting”. That revised draft ED identified certain limited disclosures as mandatory. It also encouraged (but did not require) additional disclosures - the intention being to allow the additional encouraged disclosures to be adopted as appropriate in different jurisdictions after consultation between donors and the recipients of external assistance.

Members agreed with the approach proposed and provided staff with directions for further refinements to the proposed required and encouraged disclosures.

Members considered whether progress towards a final IPSAS could be made without re-exposure of the proposed required and encouraged disclosures, and agreed that it should not. Members also agreed that a six month exposure period was desirable, during which time field testing should be pursued in conjunction with the OECD-DAC – the OECD Observer undertook to advise the OECD-DAC of these developments and to liaise with the OECD-DAC on the IPSASB's behalf on an ongoing basis.

Members directed staff to prepare for consideration at this (July 2006) meeting a draft ED which proposed amendments to the Cash Basis IPSAS to include the additional required and encouraged disclosures.

The attached draft ED has been prepared consistent with the directions of the IPSASB.

A history sheet outlining the development of the ED and the consultation program to date is attached at 11.2.

Major Changes to ED 24

The requirements of ED 24 have been reclassified into required and encouraged disclosures and certain of the requirements and encouragements have been revised as directed. An overview of the changes to the requirements of ED 24 as agreed in March 2006 is provided below.

Retained as required disclosures are:

- (a) ED 24, Paragraphs 13 and 14. Disclosure on the face of the statement or by note of the total amount of external assistance received by the entity and paid by third parties on its behalf. However, disclosure by class is now only encouraged and the specification of disclosure of the following specific classes together with their definitions has been removed: balance of payments assistance, development assistance, emergency assistance, military assistance.
- (b) ED 24, Paragraph 15. Disclosure of major classes of providers.
- (c) ED 24, Paragraph 16. Disclosure of total amount of external assistance received as loans and the total amount received as grants.
- (d) ED 24, Paragraph 22. Disclosure of total undrawn external assistance loans and grants. However, disclosure of major changes therein during the period is now only encouraged.

Retained as transitional provisions are:

- (a) ED 24, Paragraphs 52 and 53. Relief from the requirement to disclose the balance of undrawn assistance for a period of two years, and relief from the need to disclose comparative information in the first year of application of the requirements. However, transitional provisions have been revised to reflect consequences of amendment to encourage (rather than require) disclosure of changes in undrawn balances.
- (b) ED 24, Paragraph 54. Continue to require disclosure of the fact that transitional provisions have been applied

The changes to ED 24 to reclassify some required disclosures as encouraged only are identified below:

- (a) ED 24, Paragraphs 13 and 14. Disclosure of major classes of external assistance is encouraged rather than required.
- (b) ED 24, Paragraph 22 and 23. Disclosure of changes in undrawn balances and major sources thereof is encouraged rather than required.
- (c) ED 24, Paragraphs 26, 27, 28. Disclosure of the details of terms and conditions of external assistance loans and grants is encouraged rather than required.
- (d) ED 24, Paragraph 33. Disclosure of guarantees is encouraged rather than required.
- (e) ED 24, Paragraph 36. Disclosure of instances of non-compliance and consequences thereof is encouraged rather than required.
- (f) ED 24, Paragraphs 39 and 40. Disclosure of details of repayment schedules is encouraged rather than required.
- (g) ED 24, Paragraph 44. The requirement to disclose fair value of goods and services in-kind has been deleted. It has been replaced with an encouragement to disclose the value of assistance received in the form of goods and services and a requirement to explain the basis on which that value was determined if an entity elects to make the disclosure.
- (h) ED 24, Paragraph 50. Disclosure of rescheduled or cancelled external assistance debt is encouraged rather than required.

Illustrations of the required and encouraged disclosures are included at the end of each section. They include the illustrations included in ED 24 where they continue to be appropriate. However, it is proposed that Appendix 2 of ED 24 which illustrates the disclosure of external assistance by a project specific entity not be included in the ED. This is because of a staff concern that it may overwhelm the other disclosures included in the Cash Basis IPSAS.

Subsequent Developments

The OECD-DAC Joint Venture has a new Chair. The OECD Observer has provided the OECD-DAC with an update on the IPSASB decisions and on the development of the revised ED. As the opportunity arises, the IPSASB Chair will also provide an update to the OECD-DAC Joint Venture to advise of developments at the IPSASB.

Staff have been liaising directly with the Director of ESAAG, Mr Jerry Gutu, who has advised that Namibia, one of the ESAAG member countries, is prepared to field test ED 24 or its successor ED when issued. Staff will continue to work directly with Mr Gutu and contacts in Namibia in preparation for this exercise.

In addition to any other issues identified by members, staff request directions on the following issues.

ISSUES

Issue A The Nature of the exposure draft – stand-alone or amendment to Cash Basis IPSAS

At its March meeting, the IPSASB considered the first draft of a stand-alone Exposure Draft which included required and encouraged disclosures. The IPSASB confirmed the disclosures as proposed with some refinements, and directed staff to prepare a draft ED for consideration at this meeting which proposed amending the Cash Basis IPSAS for the required and encouraged disclosures. The attached ED reflects that direction.

Members are requested to confirm or otherwise that the ED is to propose that the Cash Basis IPSAS is to be amended, rather than propose that a stand-alone IPSAS dealing with external assistance be issued. Members are also requested to confirm that the disclosures identified as required and encouraged are appropriate and/or identify areas for amendment.

Issue B Specific matters for comment

Staff have included the specific matters for comment that were included in ED 24 and which relate to the required disclosures and additional encouraged disclosures in this ED. There is an argument that this is not necessary since respondents to ED 24 have already made known their views on these matters. However, staff is of the view that the new approach may draw in additional respondents and it is useful to again draw these issues to their attention.

Specific matters for comments dealing with the following matters have also been added: the proposed approach of amending the cash basis IPSAS rather than developing a stand alone ED; and whether certain of the encouraged disclosures are appropriate.

Members are requested to confirm that these specific matters should be raised for comment and to identify any additional specific matters for comment that should be included in the ED.

Issue C Location of proposed amendments to the Cash Basis IPSAS Part 1 - required disclosures

The attached draft includes the required disclosures in a separate section dealing with external assistance in Part 1 of the ED, noting that certain disclosures may be made on the face of the statement of cash receipts and payments or in the notes. A case could be made that:

- the disclosures of external assistance that can be made on the face of the statement should be located in the section dealing with the statement of receipts and payments; and
- the requirements relating to disclosures that can be made only by way of note be included in the “Notes” section.

Staff is of the view that locating requirements relating to external assistance at different places in the Cash Basis IPSAS is not as user friendly as grouping them together in one place, as in the attached draft.

Members are requested to confirm that the requirements relating to external assistance should be grouped together as proposed, or provide directions regarding their relocation.

Issue D Other potential amendments

Through its IPSAS Improvements Project (see Agenda item 15), the IPSASB is amending a number of the accrual IPSASs to better align them with the equivalent IFRSs. This will affect disclosures required by those accrual IPSASs. The Cash Basis IPSAS encourages disclosure of many items prescribed by the current suite of accrual IPSASs. Some of these disclosures will be removed from the accrual IPSASs as part of the improvements process – for example, references to extraordinary items will be removed from the accrual IPSAS, but are still retained in the encouragement section of the Cash Basis IPSAS.

This ED does not propose amendments to the Cash Basis IPSAS other than those relating to external assistance. Staff is of the view that amendments to the Cash Basis IPSAS to deal with improvement to the accrual IPSASs should be dealt with in the review of the Cash Basis IPSAS scheduled for 2007.

Members are requested to confirm that the scope and objective of this ED remains focused on external assistance.

Issue E Equal Authority of Text

The ED does not include the “rubric” stating that the black and grey letter have the same authority. This is because the Cash Basis IPSAS includes the explanation that the standards are in bold and commentary is in grey text, and this ED proposes additions to that IPSAS to only deal with external assistance. As agreed at the Tokyo meeting, the equal authority template will only be included after each IPSAS has been subjected to a full review to ensure that the grey letter text does not introduce additional requirements. It is anticipated that for the Cash Basis IPSAS, this review will occur as part of the implementation review of that IPSAS.

Notwithstanding that the equal authority statement is not included in this ED, the black and grey letter text has been drafted to ensure that it conforms with the equal authority style.

The requirement paragraphs of this ED use the term “shall” while the Cash Basis IPSAS uses the term “should”. It is anticipated the Cash Basis IPSAS will be revised to use “shall” as part of its review in 2007, and that amendments to deal with external assistance will be made at that time. Consequently, use of “shall” in this ED is appropriate.

Members are requested to confirm that the approach proposed for this ED is appropriate.

Issue F Introduction

At the last meeting, the IPSASB agreed that new EDs and IPSASs developed in the future would include an Introduction such as is included in IAS 19, “Employee Benefits” and the IPSAS ED based on IAS 19.

This ED includes such an Introduction to explain its objectives and its relationship to the Cash Basis IPSAS. However, the Introduction relates only to the amendments to the Cash Basis IPSAS proposed in respect of external assistance. Whether an Introduction should be included in the Cash Basis IPSAS could/should be considered as part of the implementation review scheduled for 2007.

Members are requested to confirm the approach proposed in respect of this ED.

Issue G Location of Advice regarding amendments to ED 24

In providing directions for the development of this ED, the IPSASB responded to submissions received on ED 24 and issues raised in discussion with Consultative Group members and a wide range of other constituents.

An outline of the background to development of this ED and a summary of major changes to ED 24 is included in the Basis for Conclusions. Staff did contemplate whether such an explanation was (a) necessary for this ED and (b) should be included in the introductory sections of the ED as a “scene setter”, or in the Basis for Conclusions. Staff is of the view that the explanation should be included in the ED and that the Basis for Conclusions is the best place for this detail. However, the introductory material to the ED does include some brief explanation of the background to the ED.

Members are requested to provide input on whether the explanation is necessary, appropriate as it stands or should be amended (and how), and is located appropriately (or should be moved to the introductory material).

Issue H Disclosures of (a) instances of non-compliance with significant terms; and (b) conditions and guarantees of grants

At its March 2006 meeting, the IPSASB agreed that disclosure of instances of non-compliance with significant terms and conditions should be encouraged, but not required. However, the characteristics that would make terms and conditions significant were not discussed in any detail. The text reflects that judgment is necessary in determining what terms and conditions are significant, and that judgment will be exercised in the context of entity’s specific circumstances and the qualitative characteristics of financial statements. The ED also explains that it is likely that non-compliance with terms and conditions which impact the entity’s access to funds, its obligations to repay funds or its ability to achieve the assistance objectives will be significant.

ED 24 required disclosure of the amount and the terms and conditions of loans that had been guaranteed by third parties. It also required disclosure of the terms and conditions of grants that had been guaranteed by third parties, but not the amount of such grants. The disclosures relating to loans and grants are now only encouraged, rather than required. If the encouragement to disclose information about guarantees is to be retained in the ED, staff is not convinced that there is a reason to encourage the disclosure of the amount of loans guaranteed, but not the amount grants guaranteed. The attached draft has been amended to include similar encouragements for loans and grants which have been guaranteed by third parties.

Members are requested to confirm the approach proposed for these disclosures or provide directions for amendment.

Issue I Illustrative examples

As agreed at the last meeting, the illustrations from ED 24 have been included in this ED to illustrate the required and encouraged disclosures.

The illustrative examples in Part 1 amend only Appendix 1(a) of the Cash Basis IPSAS. Appendix 1(b) could also be amended to illustrate the required disclosures for external

assistance. However, this would largely replicate the disclosures in Appendix 1(a). It seems to add little value to an already lengthy document. Therefore, staff propose that Appendix 1(b) be amended to simply clarify that the entity does not receive external assistance.

In Part 2 of the ED, amendments are proposed to Appendix 2 of the Cash Basis IPSAS to illustrate the encouraged disclosures. Some of the disclosures of external assistance are quite extensive. The commentary on rescheduled or cancelled debt included as Appendix 3 of ED 24 has also been added as Appendix 6 of this ED. However, staff propose that Appendix 2 from ED 24, which deals with a project specific entity, not be included in this ED. Staff are concerned that the addition of this illustration would overwhelm the illustrations of other disclosures in the Cash basis IPSAS. (For information of members, Appendix 2 of ED 24 is included at Agenda item 11.4.)

Members are requested to review the Appendices and confirm or otherwise that the illustrations as proposed are to be included in the ED.

Issue J Basis for Conclusions

The Basis for Conclusions in this ED deals only with the proposed required and encouraged disclosures for recipients of external assistance, and major changes to ED 24. The Cash Basis IPSAS does not include a Basis for Conclusion. Whether or not the Basis for Conclusion dealing with external assistance should be added to the Cash Basis IPSAS (if the Board confirms this approach) could usefully be considered as part of the review of the Cash Basis IPSAS.

Project History

Cash Basis IPSAS- Disclosure by Recipients of External Assistance (Last updated April 2006)

Nov 2002	Correspondence from the OECD-DAC (Richard Manning) and the Multi lateral Development Banks Financial Management Harmonization Group (Fayezul Choudhury)
Dec 2003	Project Advisory Panel (PAP) established
Jan 2004	Key Decisions Questionnaire (KDQ) Issued to the PAP
March 2004	PSC Meeting. Consultant and PAP Chair in attendance. Initial Draft ED based on KDQ with scope defined as “Accounting for Development Assistance” discussed in principle by PSC and guidance provided by PSC. Draft ED circulated to the PAP for comment.
April-June 2004	Consultant liaises extensively with PAP members and other key constituents regarding scope of ED and key definitions. Consultant and PAP Chair meet to analyze responses from PAP.
July 2004	PSC Meeting. Consultant and PAP Chair in attendance. Second Draft ED with scope widened and defined as “Accounting for Development and Humanitarian Assistance” discussed by PSC. PSC noted widening of scope based on comments received from PAP. PSC also noted subsequent proposal from OECD –DAC to expand the scope of the ED to “Accounting for External Assistance”. PSC indicated preliminary agreement with revised scope, subject to comment from PAP. Consultant met with the PAP through the OECD Joint Venture – Public financial Management Committee Meeting (OECD-JVPFM). Made presentation on the draft ED and discussions at July PSC meeting. PAP agreed on expansion of the scope from “Accounting or Development and Humanitarian Assistance” to Accounting for External Assistance”.
Aug-Oct 2004	Consultant continues to liaise extensively with PAP members and other key constituents regarding scope of ED, key definitions and major requirements. Consultant redrafts ED and discusses revised versions with PSC Technical director. Consultant meets with PSC Technical Director for detailed review of revised draft prior to distribution to PSC for November PSC meeting.
Oct 2004	Third Draft ED with scope defined as “Disclosure by Recipients of External Assistance” submitted to PSC for their consideration.

Oct 2004 (cont'd)	<p>Third Draft ED with scope defined as “Disclosure by Recipients of External Assistance” submitted to OECD-JVPFM for their consideration.</p> <p>Consultant and PSC Chair or nominee invited to present to OECD-JVPFM to provide update on ED, and launch ED if approved by PSC.</p>
Nov 2004	<p>Exposure Draft agreed for issue by IPSASB (formerly PSC) subject to processing of final amendments and approval by subcommittee and chair.</p> <p>Consultant and IPSASB Chair present to OECD – DAC, noting the exposure draft has been approved for issue in early 2005, subject to final review, and advising that ED will be publicly available from IFAC website. OECD-DAC agrees to instigate field test of ED amongst some member countries.</p>
Dec 04/Jan 05	ED amended and approved for issue by subcommittee. Additional question added to respond to concern of some OECD-DAC members that disclosure requirements too onerous.
Feb 2005	ED issued with comment period until 15 June 2005. ED loaded on IFAC website. PAP and OECD-DAC advised with request to field test. Hard copies printed and distributed widely.
July 2005	IPSASB commences consideration of responses. Agrees that additional field testing should occur prior to moving to a final IPSAS.
Aug-Nov 2005	Chair and staff develop letter for members to use in communicating with relevant organizations, including donors and recipients, in their jurisdiction to seek additional input and support for field testing. Chair writes to OECD-DAC re their commitment to support field testing. Members and staff encourage additional input at seminars/presentations.
Nov-Dec 2005 IPSASB meeting	<p>Members note additional responses (3) and field test potentials that appear in train. Discuss ED 24 extensively with Consultative Group members and agree to provide time for current initiatives to work through. Agree to reactivate project with review of comments and consideration of strategy for moving forward at next IPSASB meeting in March 2006.</p> <p>Staff attend a meeting of regional managers of the Multilateral Development Banks to provide an update on progress. Meeting notes that funding support was provided for this project and that support remains for an IPSAS on this topic (or for updating the Cash Basis IPSAS).</p>
Feb 2006	IPSASB Chair presents to OECD-DAC-JV. Notes that OECD-DAC-JV work program includes field testing of proposed IPSAS.

March 2006	IPSASB meeting in Tokyo. IPSASB agrees to restructure ED 24 into required and mandatory sections as per the Cash Basis IPSAS, to issue a new ED and to continue to pursue field testing of the new ED. Staff directed to prepare draft ED proposing amendments to the cash basis (as an alternative to a separate IPSAS) for consideration at the next meeting in Paris in July 2006.
April	Director of ESAAG advises staff that Namibia is prepared to field test ED 24 or a subsequent ED. Staff respond and provide update on IPSASB deliberations and plans and input on potential field test methodologies and approaches. Namibia agrees that the revised ED on external assistance should be field tested.

*Proposed Amendment to International Public Sector Accounting
Standard – Financial Reporting Under the Cash Basis of Accounting*

Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance

FIRST DRAFT - FOR IPSASB REVIEW JULY 2006

COVER TO GO HERE

The Mission of IFAC

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The International Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

Copies of this Exposure Draft may be downloaded free of charge from the IFAC website at <http://www.ifac.org>.

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA
<http://www.ifac.org>
Fax: +1 (212) 286-9570

Copyright © Month XX 2006 by the International Federation of Accountants. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "Copyright © Month XX 2006 by the International Federation of Accountants. All rights reserved. Used with permission."

For more information, contact permissions@ifac.org.

COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by Month XX 2006. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Public Sector Accounting Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Fax: +1 (212) 286-9570
E-mail Address: publicsectorpubs@ifac.org

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

This Exposure Draft proposes that Part 1 of the Cash Basis IPSAS "Financial Reporting Under the Cash Basis of Accounting" be amended to include additional disclosure requirements for recipients of external assistance. It also proposes that Part 2 of the Cash Basis IPSAS be amended to identify additional encouraged disclosures for recipients of external assistance.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition".

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed requirements and encouragements in the light of the comments received before proceeding to issue a final Standard.

Background

Providers of external assistance, particularly providers of development assistance, require recipients to follow a variety of accounting practices. Recipients of external assistance usually receive external assistance from a number of sources. Adhering to a number of different accounting practices and reporting requirements within a portfolio of projects imposes significant compliance costs on recipients.

A comprehensive IPSAS, “Financial Reporting under the Cash Basis of Accounting” (Cash Basis IPSAS) was issued in January 2003. Many recipients of external assistance maintain their accounts on the cash basis of accounting. In response to requests from constituents for a generally accepted accounting standard for reporting external assistance, the IPSASB has developed this Exposure Draft which proposes that the Cash Basis IPSAS be amended, to include additional disclosure requirements and additional encouraged disclosures for recipients of external assistance. It reflects the view that reporting requirements for external assistance should be harmonized on the basis of accounting principles followed by the recipient.

This Exposure Draft has been developed following consideration of responses to ED 24 “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” issued in February of 2005 with comments requested by June 13, 2005.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the disclosure of information about external assistance. It also identifies additional disclosures that a recipient is encouraged, but not required, to make.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by Month XX, XXXX. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific

First draft of ED --For IPSASB review July 2006

issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comments on:

1. Whether the designation of certain disclosures as required and other disclosures as encouraged is appropriate. If the proposed designation is not considered appropriate, please identify the amendments and/or reclassifications you consider appropriate.
2. Whether the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” should be amended to include the additional required and encouraged disclosures, or whether a the required and encouraged disclosures should be issued as a separate “stand alone” IPSAS.
3. Whether the proposed definition of “external assistance” in paragraph 1.9.1 is sufficiently broad to encompass all official resources received.
4. Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should also be included in the definition of “external assistance”. Currently, the Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 1.9.1 would exclude certain assistance received from NGOs.
5. Whether the Exposure Draft should encourage the disclosure of specific categories of external assistance or only the disclosure of external assistance by “major classes” without further specification. Paragraph 2.1.60 encourages the disclosure of external assistance by major classes. Paragraph 2.1.61 includes a description of some such classes.
6. The proposal to require disclosure of the balance of undrawn external assistance loans and grants (paragraph 1.9.15), and encourage disclosure of changes therein during the period (paragraph 2.1.63).
7. The proposals to encourage disclosure of certain of the terms and conditions of external assistance agreements (paragraph 2.1.67) and any significant terms and conditions that have not been complied with (paragraph 2.1.74).
8. Whether it is appropriate to encourage disclosure of the value of external assistance received in the form of non-cash goods and services (paragraph 2.1.85); and if an entity elects to make such disclosure to require disclosure of the basis on which that value was determined (paragraph 1.9.17).

First draft of ED --For IPSASB review July 2006

9. Whether the transitional provisions in paragraphs 1.10.5 and 1.10.6 are appropriate:
 - (a) Paragraph 1.10.5 provides for a transition period of two years for disclosure of the balance of undrawn external assistance is sufficient; and
 - (b) Paragraph 1.10.6 provides an exemption from the requirement to disclose comparative figures during the first year of application of the requirements relating to external assistance.

The IPSASB would welcome comments on whether other requirements of this Standard should also be subject to transitional provisions.

10. Whether there are additional disclosures that have not been dealt with and should be required or should be encouraged.

First draft of ED --For IPSASB review July 2006

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Financial Reporting Under the Cash Basis of Accounting

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the International Public Sector Accounting Standard, “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis IPSAS).
- Part 2 is not mandatory. It identifies additional accounting disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements.

Contents

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

Contents (*To be updated as necessary*)

Financial Reporting under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance

INTRODUCTION

STRUCTURE OF THE STANDARD

Introduction to the Proposed Amendments

Part 1: Requirements

Objective

Scope

Amendments

1.9	RECIPIENTS OF EXTERNAL ASSISTANCE	1.9.1 – 1.9.18
	Definitions	1.9.1 – 1.9.2
	External Assistance Agreements	1.9.3 – 1.9.5
	External Assistance Received	1.9.6 – 1.9.14
	Undrawn External Assistance	1.9.15 – 1.9.16
	Receipt of Goods or Services In-kind	1.9.17 – 1.9.18
1.10	EFFECTIVE DATE OF PART 1 AND TRANSITIONAL PROVISIONS	1.10.1 – 1.10.10
	Effective Date	1.10.1 – 1.10.2
	Transitional Provisions - Consolidated Financial Statements	1.10.3 – 1.10.4
	Transitional Provisions – Recipients of External Assistance	1.10.5 – 1.10.10
	APPENDIX 1: Illustration Of The Disclosure Of External Assistance By A Government	

Part 2: Encouraged Additional Disclosures

2.1 RECIPIENTS OF EXTERNAL ASSISTANCE 2.1.60 – 2.1.87

APPENDIX 2: ILLUSTRATION OF CERTAIN DISCLOSURES ENCOURAGED IN PART 2 OF THE STANDARD

APPENDIX 6 – RESCHEDULED OR CANCELLED DEBT

BASIS FOR CONCLUSIONS

Introduction to the Proposed Amendments

- IN1 This Exposure Draft proposes amendments to the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis). Therefore, it should be read in conjunction with the Cash Basis IPSAS. It requires certain disclosures about external assistance and encourages other disclosures. The required and encouraged disclosures are additional to those specified in the Cash Basis IPSAS.
- IN 3 The proposed requirements in this exposure draft apply to all entities that are recipients of external assistance and prepare and present their general purpose financial statements under the cash basis of accounting as defined in the Cash Basis IPSAS. The Cash Basis IPSAS applies to all public sector entities other than Government Business Enterprises (GBEs).
- IN4 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. GBEs are defined in paragraph 1.2 of the Cash Basis IPSAS as follows:

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.*

Accordingly, GBEs are profit-oriented entities and are required to comply with IFRSs.

- IN5 The Cash Basis IPSAS requires that when an entity elects to include in its financial statements any disclosures encouraged by Part 2 of the Cash Basis IPSAS, those disclosures are to satisfy the qualitative characteristics of financial reporting as specified in Appendix 4 of

First draft of ED --For IPSASB review July 2006

the Cash Basis IPSAS. The Cash Basis IPSAS also requires that notes to the financial statements of an entity describe the specific accounting policies adopted for significant transactions and events and which are necessary for a proper understanding of the financial statements. Therefore, where an entity elects to include in its financial statements any disclosures encouraged by this proposed amendment to the Cash Basis IPSAS, those disclosures are to comply with the accounting policy and explanatory notes requirements of the Cash Basis IPSAS.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

Financial Reporting Under The Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance

PART 1: REQUIREMENTS

Part 1 of this Exposure Draft sets out the proposed requirements for disclosure of information about external assistance by recipients that report 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 Exposure Draft, 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.

Part 1 of the Cash Basis IPSAS will be amended to include the additional requirements as presented in paragraphs 1.9.1 to 1.9.18 and paragraphs 1.10.1 to 1.10.10 attached. Appendix 1 which accompanies Part 1 will also be amended as outlined.

Paragraphs 1.9.1 to 1.9.18 are proposed additions to Part 1 of the Cash Basis IPSAS and are presented without mark up. Paragraphs 1.10.1 to 1.10.10 propose amendments to section 1.8 (paragraphs 1.8.1 to 1.8.3) of Part 1 of the Cash Basis IPSAS currently on issue. Amendments to section 8 are presented as mark-ups.

Part 2 of this Exposure Draft sets out disclosures that recipients of external assistance are encouraged (but not required) to make. Part 2 of the Cash Basis IPSAS will be amended to include the additional encouragements presented in paragraphs 2.1.60 to 2.1.87. Appendix 2 which accompanies Part 2 will be amended as outlined. Appendix 6 Rescheduled or Cancelled Debt will be added.

Proposed amendments to Part 2 are presented without mark-up.

Disclosure Requirements for Recipients of External Assistance

Objective

This Exposure Draft proposes amendments to the Cash Basis IPSAS “Financial Reporting Under The Cash Basis of Accounting” to require certain disclosures about external assistance and to encourage other disclosures. The term this Standard is used in this Exposure Draft to mean amendments to the Cash Basis IPSAS. It is not proposed to issue a separate Cash Basis IPSAS on disclosure requirements for recipients of external assistance.

Scope

These amendments to the Cash Basis IPSAS apply to all entities that are recipients of external assistance and prepare and present their general purpose financial statements in accordance with the Cash Basis IPSAS, “Financial Reporting Under The Cash Basis of Accounting”.

Amendments to the Cash Basis IPSAS

The Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” is amended by:

- (a) Insertion in Part 1 of the IPSAS of a new section 1.9 Recipients of External Assistance and corresponding amendments to the illustrations as illustrated in Appendix 1;
- (b) Amendments of Paragraph 1.8.1 of Part 1 of the IPSAS as identified in this Exposure Draft; and
- (c) Inclusion of a new section Recipients of External Assistance – in Part 2 of the IPSAS and corresponding amendments and additions to the illustrations as identified in this Exposure Draft.

1.9 Recipients of External Assistance

Definitions

- 1.9.1 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-Government 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 or to individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral external assistance agencies or by governments or government agencies, including bilateral external assistance agencies, at their own risk and responsibility.

Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity or to a government business enterprise.

- 1.9.2 Different organizations may use different terminology for external assistance or classes of 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,

First draft of ED --For IPSASB review July 2006

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 Agreements

- 1.9.3 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organizations. For example, governments seeking development assistance from multilateral and bilateral external assistance agencies usually participate in an annual meeting to discuss the government's macroeconomic plans and its development assistance needs. Similarly, separate meetings may be held to discuss emergency assistance needs. Some emergency situations are prolonged in nature, such as the effects of drought associated with desertification, and the need for emergency assistance may continue for a number of years. In such cases, the annual development assistance meeting may be expanded to include the country's emergency assistance needs. Such meetings usually conclude with an announcement of the total assistance pledged by the agencies, together with a breakdown of the amount of assistance pledged by each agency. Statements of intent or pledges made at these meetings are not binding on either the government or the external assistance agencies. Separate meetings between the government and individual external assistance agencies may result in specific written agreements covering development or emergency assistance loans or grants that will be available - provided any restrictions on access to the funds are met, and agreed conditions or covenants are adhered to by the entity.
- 1.9.4 External assistance may also include trade finance, military assistance, balance of payments and other forms of assistance. Trade finance and military assistance normally result from direct bilateral discussions and balance of payments assistance from a country inviting external assistance agencies to participate in a program to address the country's balance of payment concerns. Initial discussions may also result in statements of intent or pledges which are not binding on the government or the external assistance agency. Subsequent written agreements may result in assistance loans or grants that will be available provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the entity.
- 1.9.5 External assistance agreements usually provide for the entity to either:
- (a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

First draft of ED --For IPSASB review July 2006

- (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. Payments by a provider of external assistance to a third party may include payments to an NGO settling in cash an obligation of the recipient entity for goods or services provided or to be provided by the NGO.

External assistance agreements may also include provision of goods or services in-kind to the recipient.

External Assistance Received

- 1.9.6 The entity shall 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 received in cash during the period.**
- 1.9.7 The entity shall 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 showing in separate columns:**
 - (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.**
- 1.9.8 Where external assistance is received from more than one provider, the major classes of providers of assistance shall be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.**
- 1.9.9 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 shall be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.**
- 1.9.10 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 entity are funded from

First draft of ED --For IPSASB review July 2006

internal sources or are dependent upon external assistance. Disclosure of the major classes of external assistance is also encouraged but not required (see paragraphs 2.x.x).

- 1.9.11 Disclosure of the major classes of providers of assistance, such as multilateral donors, bilateral donors, international assistance organizations or national assistance organizations will identify the extent of the entity's dependence on particular classes of providers and will be relevant to any 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 provided. However, such disclosure is not prohibited.
- 1.9.12 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 the Cash Basis IPSAS (*Drafter's note – "Cash Basis IPSAS" will be replaced by "this Standard" when/if this paragraph is added to the Cash Basis IPSAS*).
- 1.9.13 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 harder or softer 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 and record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.
- 1.9.14 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 the

First draft of ED --For IPSASB review July 2006
Cash Basis IPSAS. (*Drafter's note – "Cash Basis IPSAS" to be replaced by "this Standard" when/if this paragraph is added to the Cash Basis IPSAS.*)

Undrawn External Assistance

1.9.15 The entity shall disclose separately in the notes to the financial statements the balance of undrawn external assistance loans and grants available to fund future operations showing separately:

(a) Total external assistance loans; and

(b) Total external assistance grants

1.9.16 The amount of external assistance currently committed under a written agreement(s) but not yet drawn may be significant. Disclosure of the amount of the undrawn balances will indicate the extent to which the entity may avail itself of external assistance to sustain its operations in the future. This may represent a source of confidence for the readers of the entity's financial statements that funds will be available to support its future operations. Where such undrawn balances are denominated in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the respective dates in accordance with the provisions of paragraph 1.7.2 of the Cash Basis IPSAS. (*Drafter's note – "Cash Basis IPSAS" to be replaced by "this Standard" when/if this paragraph is added to the Cash Basis IPSAS.*)

Receipt of Goods or Services In-kind

1.9.17 Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose the basis on which that value is determined.

1.9.18 Paragraph 2.1.85 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. Where an entity elects to make such disclosures, it is required to disclose 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.

1.810 Effective Date of Part 1 and Transitional Provisions

Effective Date

1.810.1 Part 1 of this International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1 January 2004 except where specified otherwise in paragraph 1.10.2 below and subject to transitional provisions specified in paragraphs 1.10.3 to 1.10.7. Earlier application is encouraged.

1.10.2 Paragraphs 1.9.1 to 1.9.18 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 200X.

Transitional Provisions - Consolidated Financial Statements

1.810.32 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.

1.810.43 Where entities apply the transitional provision in paragraph 1.810.32, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

Transitional Provisions – Recipients of External Assistance

1.10.5. Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance for a period of two years from the date of first adoption of this Standard.

1.10.6. Entities are not required to disclose comparative figures for amounts disclosed in accordance with paragraphs 1.9.1 to 1.9.18 in the first year of application of paragraphs 1.9.1 to 1.9.18 of this Standard.

1.10.7. When an entity applies the transitional provisions in paragraph 1.10.6, it shall disclose that it has done so.

1.10.8. In the first year of adoption of the requirements in this Standard relating to the disclosures about external assistance 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 1.9.15. Paragraph 1.10.5 provides relief from the requirements of paragraph 1.9.15 for a period of two years from initial application of this Standard.

1.10.9. Paragraph 1.4.16 of the Cash Basis IPSAS 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 these requirements relating to disclosure of information by recipients of external assistance as specified in paragraphs 1.9.1 to 1.9.18. Paragraph 1.10.6 provides relief from the requirement to disclose comparative information about external assistance as specified in 1.9.1 to 1.9.18 in this Standard in the first year of application of those.

1.10.10. To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.7 requires that entities that make use of these transitional provisions disclose that they have done so.

Appendix 1: Illustration of the Disclosure of External Assistance by a Government

The following amendments are proposed to “Appendix 1: Illustration of the requirements of Part 1 of the Standard” (proposed amendments are marked-up).

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 years. 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:

- (a) a Government which is a recipient of external assistance; and
- (b) a Government Entity which controls its own bank account and is not a recipient of external assistance; and
- (c) a Governmental Department which operates under a “single account” system such that a central entity administers cash receipts and payment on behalf of the Department, and is not a recipient of external assistance.

The following amendments are proposed to the Appendices illustrated in of the Cash Basis IPSAS.

Appendix 1a – A Government will be amended to:

- Remove the following in the Statement Of Cash Receipts And Payments:

~~Grants and Aid~~

~~—International Agencies~~

~~—Other Grants and Aid~~

~~Borrowings~~

- Insert the following in the Statement Of Cash Receipts And Payments in their place:

External Assistance

Total External Assistance

Other Grants and Aid

Other Borrowings

First draft of ED --For IPSASB review July 2006

Please note: these are not identified by mark-ups in the attached illustration.

- Amend the notes to the Financial Statements to:
 - insert a new note 3 External Assistance;
 - amend the numbering of the other notes accordingly and
 - amend the note headed “borrowings” to “other borrowings”.

These amendments are illustrated in the attached.

Additional Appendix 6

Include an additional appendix: Appendix 6: Rescheduled or Cancelled Debt

STAFF NOTE:

It is not proposed that amendments will be made to “Appendix 1b – Government Entity AB” or “Appendix 1c – Government Department AC”.

“Appendix 1b – Government Entity AB” illustrates the application of the requirements for a Governmental Entity which controls its own bank account. While changes to Appendix 1b of Part I are not extensive, to also illustrate the disclosures for Government Entity AB would be repetitive of the disclosures illustrated for Appendix 1a. Appendix 1b will therefore illustrate the financial statement of an entity which does not receive external assistance as defined.

“Appendix 1c – Government Department AC” illustrates the application of the standards in the preparation and presentation of general purpose financial statements for a Governmental Department which operates under a “single account” system. In this case, the Department does not control its own bank account - rather a central entity administers cash receipts and payment on behalf of the Department. In these circumstances, it is questionable whether the Department would directly gain control of external assistance loans and grants (though it may receive external assistance in the form of payments made on its behalf by third parties), and whether inclusion of the illustrations are justified.

External Assistance Received by a Government**(Paragraphs 1.9.6 and 1.9.7)****CONSOLIDATED FINANCIAL STATEMENTS FOR GOVERNMENT A****CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED
31 DECEMBER 200X****(RECEIPTS ONLY)**

	Note	200X	200X-1
(in thousands of currency units)	Cash Receipts	Payments by third parties	Cash Receipts Payments by third parties
RECEIPTS			
Taxation			
Income tax	X	-	X -
Value-added tax	X	-	X -
Property tax	X	-	X -
Other taxes	X	-	X -
	X	-	X -
External Assistance	X	X	X X
Other Grants and Aid	X	X	X X
Other Borrowings	X	X	
Capital Receipts			
Proceeds from disposal of plant and equipment	X	-	X -
Trading Activities			
Receipts from trading activities	X	-	X -
Other receipts			
	X	-	X -
Total receipts	X	X	X X

Note: No amendments are proposed to the illustration of "Payments" in the Statement of Cash Receipts and Payments in Appendix 1(a)

First draft of ED --For IPSASB review July 2006

Note 3 External Assistance
(Paragraphs 1.9.8 and 1.9.9)

External assistance was received in the form of loans and grants from Multilateral and Bilateral External Assistance Agencies under agreements specifying the purposes for which the assistance will be utilized.

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

Note 3a Undrawn External Assistance**(Paragraphs 1.9.15)**

Undrawn external assistance – Loans and Grants

Undrawn external assistance loans and grants consist of the amount of external assistance loans and grants agreed with external assistance agencies that have not been utilized at the close of the fiscal year.

	Loans 200X	Grants 200X	Loans 200X-1	Grants 200X-1
Closing balance	X	X	X	X
Closing balance available by currency				
			X	X
US Dollar		X	X	X
Euro	X	X	X	X
Yen	X	X	X	X
Other	X	X	X	X
Total	X	X	X	X

Note 3 External Assistance received in the form of goods and services**(Paragraphs 1.9.17)**

During the period a major earthquake occurred in region B and external assistance was received in the form of food and medical supplies to the value of XX currency units and specialist medical and engineering services to the value of YY currency units. This amount was the cost of the goods and services as advised by the external assistance agencies that provided assistance.

PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Exposure Draft proposes amendments to Part 2 of the Cash Basis IPSAS. It sets out encouraged additional disclosures for recipients of external assistance. The disclosures proposed in this section are not mandatory.

Part 2 should be read together with Part 1 of this Exposure Draft, which sets out the proposed requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italics, should be read in the context of the commentary paragraphs in this part of the Exposure Draft, which are in plain type.

Financial Reporting under the Cash Basis of Accounting Part 2: Encouraged Additional Disclosures

2.1 Recipients of External Assistance

- 2.1.60 *An entity is encouraged to disclose by major class in notes to the financial statements, the purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants.*
- 2.1.61 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
 - (e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.
- 2.1.62 Part 1 of this Standard requires disclosures of the total amount of external assistance received during the reporting period. Disclosure of the major classes of external assistance received by way of loan or grant will enable users to 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.
- 2.1.63 *An entity is encouraged to disclose by major class in notes to the financial statements:*

First draft of ED --For IPSASB review July 2006

- (a) *providers of the loan assistance and grant assistance that is undrawn at reporting date;*
- (b) *the purposes for which the undrawn loan assistance and undrawn grant assistance may be used; and*
- (c) *changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*

2.1.64 Undrawn external assistance balances are required to be disclosed by Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.63 will enable readers of the financial statements to determine the extent to which assistance is currently available for particular purposes or activity in the future, the providers of that assistance and whether available loan and grant assistance was declined or increased during the period.

2.1.65 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grant, 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 during the period, and the closing balance of undrawn loans. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change. This will enable users to determine whether, for example, assistance is being drawn and replaced and the composition of the change.

2.1.66 Where such disclosures are made, 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.

2.1.67 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or effect access to, or limit the use of external assistance.*

First draft of ED --For IPSASB review July 2006

- 2.1.68 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 funded under the external assistance may be purchased. This type of external assistance 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.
- 2.1.69 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 prior to the release of the external assistance; 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.
- 2.1.70 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.
- 2.1.71 *An entity is encouraged to disclose in notes to the financial statement:*
- (a) *the outstanding balance of any external assistance loans for which performance has 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) *the amount and terms and conditions of grants that have been guaranteed by a third party or parties, and any additional terms and conditions arising from the guarantee.*
- 2.1.72 External assistance may consist of, or include, a guarantee of the balance of a loan borrowed by an entity, in total or up to a specified amount. It may also include a guarantee of

First draft of ED --For IPSASB review July 2006

performance of some action under the loan, such as payment of interest or setting tariffs according to an agreed formula. Grants may also be subject to terms and conditions which are guaranteed by third parties.

- 2.1.73 Disclosure of the amounts of 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. This will provide readers of the financial statements with a more comprehensive overview of the extent to which the entity is dependent on external assistance to access financial resources. Disclosure of the terms and conditions of loans and grants that have been guaranteed as encouraged by paragraph 2.1.71 will also indicate the additional performance requirements or conditions that arise as a consequence of the guarantee.
- 2.1.74 *An entity is encouraged to disclose in notes to the financial statements significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with together with the consequence of the noncompliance.*
- 2.1.75 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. Consequences of non-compliance stated in the agreement may include cessation of rights to draw funds under the affected agreement until the default is corrected, repayment of a portion of the funds already drawn down or repayment of the entire balance of the funds drawn down. Default may occur during the draw down period for the loan or grant or during the life of the agreement. Guarantee agreements usually carry cross default clauses which trigger a default under the guaranteed loan if the guarantee agreement is violated.
- 2.1.76 Identifying 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. Significant terms and conditions are likely to be those where non-compliance has an immediate impact on the entity's access to assistance otherwise approved, require the entity to repay material amounts of

First draft of ED --For IPSASB review July 2006
assistance already drawn down or limit the ability of the entity to access external assistance in the future.

- 2.1.77 Disclosure of significant terms and conditions of external assistance that have not been complied with, and the consequences thereof, will assist the readers of the financial statements to determine such matters as whether non-compliance has adversely affected the funds that will be available to support the entity's future operations, and what actions need to be taken to re-establish compliance with the agreement.
- 2.1.78 *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.*
- 2.1.79 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 any other significant repayment terms.
- 2.1.80 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 to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge, if any, payable.
- 2.1.81 Future debt service payments for outstanding external assistance debt may be denominated in a foreign currency. Part 1 of this Standard includes requirements for the treatment of foreign currency cash receipts, payments and balances during and as the end of the reporting period. It also includes definitions of foreign currency and closing rate. Where disclosures of future debt service payments 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.

First draft of ED --For IPSASB review July 2006

This will indicate the nature of the foreign exchange risk, if any, associated with the future repayment of external assistance.

- 2.1.82 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 paragraph 1.3.30 to 1.3.37 of Part 1 of the Cash Basis IPSAS, when an entity elects to make disclosures which involve estimates, accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements. *(Drafter's note – "Cash Basis IPSAS" will be replaced by "this Standard" when/if this paragraph is added to the Cash Basis IPSAS).*
- 2.1.83 *An entity is encouraged to disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions.*
- 2.1.84 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt. Disclosure of external assistance debt rescheduled or cancelled, together with any related terms and conditions will alert users of the financial statements that such renegotiation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.
- 2.1.85 *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.*
- 2.1.86 Significant resources may be received under external assistance agreements in the form of goods or services in-kind. This will occur when new or used goods such as vehicles, computers or other equipment is 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.
- 2.1.87 Disclosure of the value of external assistance received as goods and services in kind will assist readers of the financial

First draft of ED --For IPSASB review July 2006
statements to better understand the full extent of external assistance received during the reporting period.

- 2.1.88 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 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, 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, being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

APPENDIX 2 – Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

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

The following illustrative disclosures are additional to those already included in Appendix 2 of the Cash Basis IPSAS. They will be added to Appendix 2 and terminology in Appendix 2 which currently refers to aid agreements will be amended to refer to External Assistance Agreements.

Appendix 6 will also be added to the Cash Basis IPSAS.

Appendix 3, 4 and 5 of the Cash Basis IPSAS remain unchanged.

THIS DRAFT ILLUSTRATION IS TO BE UPDATED FOLLOWING IPSASB REVIEW AND CONFIRMATION OR OTHERWISE OF THE ENCOURAGED DISCLOSURES.

First draft of ED --For IPSASB review July 2006

Extract From Notes to the Financial Statements**Classes of External Assistance** (*Paragraph 2.1.60*)

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		Trade Finance		Other	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
Borrowed Funds	X	X	-	-	X		X	
Grant Funds	X	-	X	X	-		X	
Total	X	X	X	X	X		X	

Financial Reporting Under The Cash Basis of Accounting

Appendix 2

Item 11.3 *Draft ED amending Part 2*

IPSASB Paris, July 2006

First draft of ED --For IPSASB review July 2006

Undrawn External Assistance (*Paragraphs 2.1.63*)

Undrawn external assistance loans and grant consist of amounts agreed with external assistance agencies that have not been utilized at the close of the fiscal year. External assistance cancelled resulted from overestimation of the cost of development projects and, in the case of trade assistance/finance, from expired deadlines.

	Development Assistance		Emergency Assistance		Trade Assistance		Other	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
Opening balance								
Loans	X	X	-	-	X	X		
Grants	X	X	X	X	-	-	X	X
Approved in period								
Loans	X	X	-	-	X	X	-	-
Grants	X	X	X	X	-	-	X	X
Total available	X	X	X	X	X	X	-	-
Loans drawn down	X	X	-		X	X		
Grants drawn down	X	X	X	X	-	-	X	X
Loans cancelled	(X)	(X)			(X)		-	(X)
Grants Cancelled	-	-	-	-				
Exchange difference	X	X			X	X	-	X

Financial Reporting Under The Cash Basis of Accounting

Appendix 2

Item 11.3 Draft ED amending Part 2

IPSASB Paris, July 2006

First draft of ED --For IPSASB review July 2006

	Developm	nt Assistance	Emergency Assistance	Trade Assistnce	Other			
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
Closing balance	X	X			X	X		X
Closing balance by currency								
US Dollar	X	X			X	X	-	X
Euro	X	X			X	X	-	X
Yen	X	X			X	X	-	X
Other	X	X			-	-	-	X
Total	X	X			X	X	-	X
By providers								
<u>Loans</u>								
Multilateral agencies	X	X	X	X	X	X	X	X
Bilateral agencies	X	X	X	X	X	X	X	X
<u>Grants</u>								
Multilateral agencies	X	X	X	X	X	X	X	X
Bilateral agencies	X	X	X	X	X	X	X	X

*Financial Reporting Under The Cash Basis of Accounting**Appendix 2**Item 11.3 Draft ED amending Part 2*

IPSASB Paris, July 2006

First draft of ED --For IPSASB review July 2006

Significant terms and conditions (*Paragraphs 2.1.67*)

General Restrictions

The balance of commitments for, or undrawn balances of, external assistance is subject to, or restricted by, prior performance of specific agreed actions or the maintenance of agreed economic or financial performance levels by the Government or the relevant project implementation agency.

The Government has prepared an economic development plan for receipt of balance of payments assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Government and the donors have agreed targets for reducing the fiscal deficit to sustainable levels within five years through a program of tax reforms, sale of certain state owned enterprises and by focusing expenditures within the poverty reduction strategy. Fiscal expenditures will be increased for the agricultural, health, education and trade support sectors. The Government and the donor community have agreed on methods to monitor progress to achieve agreed targets and have agreed to meet annually to review progress and to ensure continued donor financial support for the Government's economic development plan.

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. Bilateral Agencies are either unrestricted or limit purchases of goods or services to 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.

Financial Reporting Under The Cash Basis of Accounting

Appendix 3

Item 11.3 *Draft ED amending Part 2*

IPSASB Paris, July 2006

Non-Compliance with significant terms and conditions (*Paragraph 2.1.74*)

The Government's expenditures in the education sector did not meet the investment target primarily due to construction delays caused by an earthquake. Expenditures were one 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 (*Paragraph 2.1.71*)

Undrawn external assistance – Guarantees

Guarantees issued by the Government of YYYY covering undrawn commercial export financing at the end of 200X in the amount of US Dollars XXX (200X -1: US Dollars Nil) is not included in the above tables.

Repayment Terms and Conditions - Debt Service Obligations

(Paragraph 2.1.78)

Development Assistance terms include grace periods which range from at least five years to a maximum of seven years. Interest rates include both fixed rates and variable rates. All development assistance debt are denominated in US Dollars. Interest rates on fixed rate loans, as of fiscal year ending 200X range from 5.25 percent to 6.75 percent with a weighted average of 5.95 percent. For the fiscal year ending 200X-1, they range from 5.25 percent to 6.70 with a weighted average of 5.92 percent. Interest rates on variable rate loans range from LIBOR plus 1 percent to LIBOR plus 1.25 percent with a weighted average at the end of fiscal year 200X of 7.35 percent and at the end of fiscal year 200X-1 of 7.27 percent. Some development assistance credits include a grace period of ten years and are interest free but a service charge of 0.75 percent applies.

Major features of trade assistance/finance debt are:

- Trade Assistance/Finance terms do not include grace periods;
- Interest rates include both fixed rates and variable rates;
- Fixed rates range from 7.3 percent to 8.2 percent for debt denominated in US Dollars, with a weighted average of 7.75 percent; 7.25 to 8.4 percent for debt denominated in Euros with a weighted average of 7.76 percent and 3.25 to 4.70 percent for debt denominated in Yen with a weighted average of 3.75 percent; and

Financial Reporting Under The Cash Basis of Accounting

Appendix 3

Item 11.3 *Draft ED amending Part 2*

IPSASB Paris, July 2006

First draft of ED --For IPSASB review July 2006

- Variable interest rates range from 5.85 percent to 8.85 percent for debt denominated in US Dollars, with a weighted average of 6.80 percent; 5.80 percent to 8.70 percent for debt denominated in Euros, with a weighted average of 6.85 percent; 3.70 percent to 3.95 percent for debt denominated in Yen, with a weighted average of 3.82 percent.

Other Assistance does not include a grace period and is all denominated in US Dollars and includes a Poverty Reduction and Growth Facility with interest set at 0.5 percent and an Extended Fund Facility with interest set at 4.75 percent.

<u>200X</u>				
Outstanding Debt by Remaining Grace Period Years				
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Trade Finance	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
Trade Finance	X	-	-	X
Other	X	-	-	X
Total	X	X	X	X

Development Assistance loans have repayment periods varying from 20 years to 25 years subsequent to the grace period with a weighted average for outstanding debt of 27.7 years including the grace period. In all cases, the debt service is based on a fixed payment of principal plus interest accrued. Development assistance credits have repayment periods of 30 years following the grace period with a weighted average for outstanding

Financial Reporting Under The Cash Basis of Accounting

Appendix 3

Item 11.3 *Draft ED amending Part 2*

IPSASB Paris, July 2006

First draft of ED --For IPSASB review July 2006

debt of 32.4 years including the grace period. Debt service is based on a fixed payment of principal plus a service fee.

Trade Assistance/Finance loans have repayment periods varying from 3 to 7 years with a weighted average of 4.7 years. Debt service is based on a fixed payment of principal plus interest accrued.

Other Assistance loans have repayment periods varying from 2 to 7 years with a weighted average of 4.9 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
Trade Assistance/Finance	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
Trade Assistance/Finance	X	X	X	-	X
Other	X	X	-	-	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on a fixed payment of principal plus accrued interest. Interest payments or service charges are based on the outstanding principal of each loan or credit 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.

Financial Reporting Under The Cash Basis of Accounting

Appendix 3

Item 11.3 *Draft ED amending Part 2*

IPSASB Paris, July 2006

200X + 1 and Subsequent Years**Debt Service Payments Including Interest**

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

Receipt of Goods and Services In-Kind (*Paragraph 2.1.85*)

During 200X, a severe earthquake occurred in the ZZZ Region inflicting serious damage to government property and private property, and significant loss of life. Several nations donated specialized professionals 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 those specialized 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 in-kind 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 6: Rescheduled or Cancelled Debt

This appendix discusses the circumstances involved in rescheduling or canceling sovereign debt and the impact on the entity's financial statements.

1. The following terms are used in this appendix with the meaning specified:

Highly Indebted Poor Countries (HIPC)s are countries which:

- (a) Are only eligible for highly concessional assistance such as from the World Bank's International Development Association (IDA) and the International Monetary Fund's (IMF's) Poverty Reduction and Growth Facility;
- (b) Face an unsustainable debt situation even after the full application of traditional debt relief mechanisms; and
- (c) Have a proven track record in implementing strategies focused on reducing poverty and building the foundation for sustainable economic growth.

HIPC Trust Fund has been established on the basis of contributions from participating multilateral creditors and bilateral donors.

1. A government experiencing difficulty in servicing its debt, including bilateral development assistance debt, may seek renegotiation of the terms of its sovereign debt under Paris Club arrangements. The Paris Club is not a legally established entity – it is an informal group of official creditors that seek to find coordinated and sustainable solutions to balance of payments difficulties experienced by debtor nations. Although each situation considered by Paris Club members is unique and is considered on a case by case basis, the members have harmonized the circumstances under which they will agree to forgive, defer or reschedule debt as well as the amount of medium to long term debt that will be addressed.
2. Paris Club negotiations may respond to short term balance of payments difficulties by addressing a financing gap covering up to three years debt service payments or may respond to long term

First draft of ED --For IPSASB review July 2006

balance of payments difficulties by addressing the remaining debt service requirements for debt existing at the time of the negotiations.

3. Rescheduling debt service payments for least developed countries may involve revised payment terms for sovereign commercial debt of up to 23 years (including up to 6 years grace during which only interest on the deferred amount is paid) and up to 40 years for official development assistance (including a grace period of up to 16 years). Debt from multilateral agencies such as the International Monetary Fund (IMF), the World Bank or the regional development banks is not eligible for Paris Club consideration.
4. Increasingly, debt cancellation is applied as part of the solution to addressing long term balance of payments issues. Under the negotiations described above, debt cancellation of up to 67% of the remaining debt service obligations may be considered. For the least developed and most indebted countries (HIPC countries), the Paris Club will consider debt cancellation of up to 90% of remaining debt service obligations. HIPCs may also seek relief from debt service obligations to multilateral agencies through the HIPC Trust Fund. The proceeds of the HIPC Trust Fund are used to prepay or purchase a portion of the debt owed to a multilateral creditor(s) and cancel such debt or to make a debt service payment(s) on behalf of the HIPC as it comes due.
5. While the Paris Club provides a structure and a harmonized approach to address a portion of a country's balance of payments difficulties, it does not provide an overarching agreement between its members and the creditor nation. Each agreement covered by Paris Club consideration must be individually amended to reflect changes in the terms and conditions of the loan. An overarching set of conditions is provided by reference in the revised agreements to adherence with the terms and conditions of an IMF loan. In the case of HIPCs the overarching conditionality is provided by a Poverty Reduction Strategy Plan supported by loans from both the IMF and the World Bank and, in some cases, other agencies.
6. Debt rescheduling or debt cancellation does not involve a cash receipt or a cash payment. However, the terms and conditions attached to the debt that has been rescheduled have changed. The notes to the financial statements of the entity involved should disclose the renegotiated terms and conditions consistent with disclosure requirements specified in this Standard. The required note

First draft of ED --For IPSASB review July 2006

on compliance with all loan covenants should disclose the entity's inability to service its debt(s) and the principal terms of the rescheduling. Furthermore, any material additional terms and conditions resulting from, or in conjunction, with Paris Club negotiations or the HIPC Initiative, such as obligations under an IMF or World Bank loan including a Poverty Reduction Strategy Plan, should be disclosed. Rescheduling or cancellation of sovereign debt due to an immediate or anticipated inability to service the debt is a material event and should be fully disclosed in the notes to the financial statements.

7. Repayments made on behalf of the entity by the HIPC Trust Fund should be reported as cash receipts and disclosed in a separate column disclosing third party payments in the Statement of Cash Receipts and Payments in accordance with the provisions of this Standard. A third party payment(s) of debt amortization obligations as part of debt relief is a material event and should be shown separately in accordance with the provisions of this Standard with a reference to the note describing the debt relief.
8. Further information regarding the Paris Club may be obtained from their website <http://www.clubdeparis.org/en/>.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to the Cash Basis IPSAS.

Introduction

The Need for this Standard

- BC1. Providers of external assistance, particularly development assistance, require recipients to follow accounting principles acceptable to them for the use of the funds provided. In many cases, the requirements of each of the donors will differ in some respects. In some cases, they require the recipient to follow accounting standards generally practiced in the donor country. This may include standards for the accrual basis of accounting even though the recipient's accounting system is on the cash basis of accounting. Consequently, the recipient may be required to maintain two sets of accounts, one for the provider of the assistance and a second utilizing national public sector accounting standards to meet domestic legal requirements and for submission to local authorities.
- BC2. Recipients of external assistance usually receive external assistance from a number of sources. Adhering to a number of different accounting practices and reporting requirements within a portfolio of projects imposes additional compliance costs on recipients. In many cases, those recipients have limited staff with the requisite skills. Consequently, timely submission of required financial statements is often delayed.
- BC3. The IPSASB is of the view that the preparation of financial statements in accordance with the requirements of an International Public Sector Accounting Standard (IPSAS) on external assistance provides the potential to:
- Increase the comparability and usefulness of the financial information to users of the statements; and
 - Reduce the costs that recipients of such assistance face in complying with the different reporting requirements that may be imposed on them by providers of assistance.

First draft of ED --For IPSASB review July 2006

Focus on Cash Basis of Accounting

- BC4. The vast majority of recipients of external assistance utilize the cash basis of accounting. The required and encouraged disclosures in this proposed Standard have been developed to respond to the need for an international generally accepted accounting Standard for the disclosure of information by recipients of external assistance by governments and other public sector entities which adopt the cash basis of accounting.
- BC5. Some entities that receive external assistance use the accrual basis of accounting, or are in the process of conversion to the accrual basis of accounting. The IPSASB is currently progressing a project on accounting for revenue from non-exchange revenue under the accrual basis of accounting. That project will deal with certain matters relevant to accounting for external assistance under the accrual basis of accounting. The IPSASB will consider whether additional requirements on accounting for, and/or disclosure of, external assistance by recipients is necessary as the non-exchange revenue and other key accrual accounting standards are developed, and in light of relevant issues that might be identified in the course of the development of this IPSAS.

Definition of External Assistance

- BC6. This project initially focused on the disclosure of information about development assistance. The Project Advisory Panel, and other major constituents, advocated that the scope of the project be widened to address all official external assistance, and require disclosure of major components of external assistance. The IPSASB (then the PSC) responded positively to that input and expanded the scope of the exposure draft to include all official external assistance.
- BC7. External assistance is defined as official resources originating from multilateral agencies or from governments or government agencies. In developing this definition, the IPSASB considered definitions widely used in practice including those of major recipients, donors and industry representative organizations. While there is currently no single definition of external assistance adopted by all recipients and donors, the IPSASB is of the view that the definition included in this proposed Standard captures the major features of the definitions currently in use, and is appropriate.

Exposure Draft ED 24

- BC8. The IPSASB issued Exposure Draft ED 24, “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” in February 2005 for comment by June 15, 2005. The IPSASB attempted to have the proposed requirements of ED 24 field tested in developing countries and sought assistance from the OECD-DAC and donors in a number of countries to this end. However, field testing did not occur as the IPSASB had hoped.
- BC9. Responses to ED 24 provided mixed messages about the practicability and onerous nature of some of the proposed requirements. The IPSASB undertook extensive consultation with its Consultative Group and other constituents on whether it was important to proceed with this project, and approaches that might be adopted for the development of requirements that enhance the accountability of financial statements, do not impose an inappropriate burden on reporting entities and can be justified on a cost-benefit basis across a wide range of jurisdictions.
- BC10. The IPSASB remains of the view that it is important to develop requirements for disclosure of information about external assistance by recipients that report under the cash basis IPSAS. This has been reinforced by discussions with constituents. However, the IPSASB recognizes that the ability of individual recipients to comply with the proposed requirements of ED 24 may differ because of the availability of the information and/or the capacity of the current accounting system to capture and process the information as proposed.
- BC11. Constituents proposed that the IPSASB develop requirements that mirror the approach in the cash basis IPSAS – a mandatory section which establishes the minimum disclosures necessary to discharge accountability, supported by a section which identifies additional encouraged disclosures to enhance accountability and provide additional information as input for decision making purposes. The additional encouraged disclosures could then be activated as appropriate in different jurisdictions in consultation between recipients and donors of external assistance. The IPSASB is of the view that this is a sensible way to proceed and can be justified on a cost benefit basis. The proposed amendments to the Cash Basis IPSAS

First draft of ED --For IPSASB review July 2006

reflected in this proposed Standard have been developed to reflect that approach. The major changes from ED 24 in this proposed Standard are outlined below in figure 1.

Required and Encouraged Disclosure

- BC12. This proposed IPSAS requires disclosure of the total amount of external assistance received in cash or paid by third parties to settle obligations of the recipient during the reporting period, and the amount of external assistance that has not yet been drawn down. The proposed IPSAS also encourages, but does not require, a range of other disclosures including disclosure of the major classes of external assistance received during the period; the value of goods and services received in kind, terms and conditions that govern the draw down or may otherwise limit access to external assistance, and the significant terms and conditions that have not been complied with.
- BC13. The IPSASB is of the view that the required disclosures are necessary to adequately inform readers of the financial statements of the total amount of external assistance received, used and available during the reporting period. The additional encouraged disclosures will also further enhance assessment of the extent to which the reporting entity is dependant on external assistance to support its activities, the sources of that assistance and the sustainability of its ongoing operations.

Third Party Settlements and Receipt of Goods and Services In-Kind

- BC14. Recipients of external assistance may receive the proceeds of an assistance package in cash as a lump sum or as tranches of the total agreed amount. In addition, particularly with project specific loans, the recipient may settle its obligations to suppliers of goods or services and ask the external assistance agency to reimburse it for the amounts paid, or the recipient may ask the external assistance agency to settle its obligations directly with the third party. In these cases, the goods or services utilized in accomplishing the project are determined or otherwise selected by the recipient, usually within procurement rules agreed to by the recipient and the external assistance agency. The external assistance agency then operates as a financier. The IPSASB is of the view that these payments to

First draft of ED --For IPSASB review July 2006

third parties are similar to central treasury account payments of funds designated for use by the recipient. Consistent with existing requirements of the Cash Basis IPSAS, they are reported in a separate column on the face of the Statement of Receipts and Payments.

- BC15. In some cases, an external assistance agreement will require the external assistance agency to provide specified goods or services to the recipient. In these cases, the external assistance agency usually determines the specification of the goods or services, procures them, and then provides them to the recipients as goods or services in-kind. Therefore, the recipient receives external assistance in the form of goods and services rather than cash or by way of settlement of obligations it has incurred. An important form of this type of assistance is food aid.
- BC16. The receipt of goods or services in-kind is not reported on the face of the Statement of Receipts and Payments. ED 24 proposed that the fair value of such goods and services be disclosed as a note to the financial statements, and provided guidance on how that fair value was to be determined. Respondents to ED 24 were strongly of the view that in many jurisdictions a reliable fair value for such goods and services is not available and, in many other jurisdictions, the cost of generating such value may be prohibitive. Some also questioned the purpose of such disclosures under the cash basis of financial reporting, where many assets may not be recognized.
- BC17. The IPSASB was persuaded by these arguments. Therefore, this proposed Standard does not require the disclosure of the fair value of goods and services in-kind. However, the receipt of goods or services may be an important source of external assistance, and this proposed Standard encourages the disclosure of the value of goods or services received in-kind in the notes to the financial statements. It also requires that where disclosure of such values are made, the notes disclose the basis on which the valuation is made.

Transition Provisions

- BC18. This proposed Standard applies only to entities reporting under the cash basis of accounting. However, it also requires note disclosure of such matters as balances of undrawn external

First draft of ED --For IPSASB review July 2006

assistance which may not be readily available to some recipient of external assistance.

- BC19. Multilateral and bilateral agencies usually maintain detailed records of external assistance provided and available to each recipient under each external assistance agreement. In some cases, they maintain the information on computer data bases which are accessible by recipient country authorities. In most cases, they provide notification of the details of each transaction including the currency or currencies utilized – however, this notification may be sent only to the implementing agency and not to the Ministry of Finance or other agency responsible for the recipient’s accounting. Usually external assistance agencies periodically confirm drawn and undrawn balances with the recipient. Therefore, although recipients may not initially have detailed information regarding opening and closing balances, in most cases the amount should be readily available from external assistance agencies.
- BC20. The IPSASB is of the view that a two year transitional period will provide recipients sufficient time to access the information necessary to comply with the requirements of the Standard relating to undrawn balances.
- BC21. In some cases it may not be practicable to gather all the relevant data about external assistance transactions and balances of the previous period when an entity first adopts the requirements proposed in this Standard. This is likely to be particularly true in respect of third party settlements and undrawn balances of external assistance. To provide entities with sufficient time to ensure that accounting systems capture and process the necessary data, the proposed amendments to the Cash Basis IPSAS do not require that comparatives be prepared for the first year of operation of this Standard.

Figure 1. Amendments to ED 24

Required disclosures in ED 24 which have been reclassified as encouraged disclosures in this ED are outlined below.

Paragraphs in brackets identify the paragraphs in Ed 24:

- (a) Disclosure of major classes of external assistance is encouraged rather than required. (ED 24, Paragraphs 13 and 14)
- (b) Disclosure of changes in undrawn balances and major sources thereof is encouraged rather than required. (ED 24, Paragraph 22 and 23)
- (c) Disclosure of the details of terms and conditions of external assistance loans and grants has been condensed and is encouraged rather than required. (ED 24, Paragraphs 26, 27, 28)
- (d) Disclosure of information about guarantees is encouraged rather than required. (ED 24, Paragraph 33)
- (e) Disclosure of instances of non-compliance with significant terms and conditions and consequences thereof is encouraged rather than required. (ED 24, Paragraph 36)
- (f) Disclosure of details of repayment schedules is encouraged rather than required. (ED 24, Paragraphs 39 and 40)
- (g) Disclosure of rescheduled or cancelled external assistance debt is encouraged rather than required. (ED 24, Paragraph 50)

In addition, the requirement to disclose the fair value of goods and services in-kind has been deleted (ED 24, Paragraph 44). The proposed Standard includes an encouragement to disclose the value of goods and services received as external assistance and, where an entity elects to make such disclosures, a requirement to explain the basis on which that value was determined if the entity elects to make the disclosure.

Appendix 2 from ED 24

NOTE: Staff propose that this Appendix not be included in the ED proposing amendments to the Cash Basis IPSAS.

Appendix 2: Illustration of the Disclosure of External Assistance by a Project Specific Entity

Appendix 2, “Illustration of the Disclosure of External Assistance by a Project Specific Entity” was included in ED 24. While useful in itself as an illustration of the required and encouraged disclosures in this draft ED, it is not proposed that the cash basis IPSAS be amended to add this illustration. This is because of concerns that the disclosures of external assistance will overwhelm other disclosures.

Illustration of the Disclosure of External Assistance by a Project Specific Entity

Development Assistance Re-lent to an Individual Project

URBAN WATER SUPPLY PROJECT

STATEMENT OF RECEIPTS AND PAYMENTS

(RECEIPTS ONLY)

	<u>200X</u>				<u>200X-1</u>			
	Cash Receipts	Paid by Third Party		Total	Cash Receipts	Paid by Third Party		Total
		Related	Unrelated			Related	Unrelated	
MMM Development Bank	-	-	X	X	-	-	X	X
CCC Bilateral Agency	-	-	X	X	-	-	X	X
National Government	X	X	-	X	X	X	-	X
Total	X	X	X	X	X	X	X	X

Note 1 - Undrawn External Assistance
(Paragraph (22 and 23))

Undrawn external assistance consists of development assistance agreed to be provided by the National Government to fund the Urban Water Supply System from funds lent to the National Government by the MMM Development Bank, the CCC Bilateral Agency and from its own resources. Funds provided from the MMM Development Bank and the CCC Bilateral Agency have been lent by the National Government to the Urban Government in the currencies received from the external assistance agencies.

Changes in undrawn external assistance:

	200X			200X-1		
	Loan	Gran	Total	Loan	Gran	Total
	t	t		t	t	
Opening balance	X	X	X	X	X	X
Additional development assistance	-	X	X	-	-	X
Total available	X	X	X	X	X	X
Development assistance utilized	X	X	X	X	X	X
Development assistance cancelled	-	(X)	(X)	(X)	(X)	(X)
Exchange difference	X	X	X	X	X	X
Closing balance	X	X	X	X	X	X

Undrawn External Assistance originated from the following sources and is denominated in the following currencies:

	200X			
	US Dollar	Euro	Local	Total
MMM Development Bank	X	-	-	X
CCC Bilateral Agency	-	X	-	X
National Government	-	-	X	X
Closing Balance	X	X	X	X

	200X-1			
	US Dollar	Euro	Local	Total
MMM Development Bank	X	-	-	X
CCC Bilateral Agency	-	X	-	X
National Government	-	-	X	X
Closing Balance	X	X	X	X

Note 2 - Restrictions on Development Assistance
(Paragraphs 26, 27 and 36)

General Restrictions

Loans provided by the National Government are on the same terms and conditions as the original loan from the external assistance agencies. Loans originating from the MMM Development Bank and the CCC Bilateral Agency require that the water supply utility set water tariffs at a level to cover the cost of providing potable water, the proper maintenance of all assets and to provide a reasonable contribution to the replacement and renewal of existing assets. Both loans are guaranteed by the National Government for which a fee of 0.25 percent of the outstanding loan amount is charged. No other conditions result from the guarantee. Additional funds from the National Government have been provided as a grant.

Procurement Restrictions

Procurement financed under the MMM Development Bank loan is limited to an agreed list of water purification equipment, distribution pipes and other equipment as well as services needed to increase the capacity of the water supply system to agreed levels. All procurement must take place utilizing agreed international competitive bidding procedures. All goods and services must be manufactured in or supplied from one or more of the 55 member countries of the MMM Development Bank. Procurement financed under the CCC Bilateral Agency loan is limited to financing a contract to develop a ground water field on land owned by the city and leased to the utility. The services must be procured from a firm located in CCC Country using agreed competitive bidding procedures, except that up to twenty percent of the agreed loan amount may be used to procure domestic goods and services ancillary to the main drilling contract.

Procurement utilizing funds from the National Government grant must follow standard government procurement regulations.

Compliance with Loan Covenants

The Urban Water Supply System has complied with all loan covenants including performance covenants and other covenants requiring submission of audited annual financial statements and has followed all respective procurement regulations.

Note 3 – Debt Service Obligations

(Paragraphs 39 and 40)

Development Assistance received from the National Government utilizes funds originating from the MMM Development Bank and the CCC Bilateral Agency on the same terms and conditions as received by the National Government from these respective external assistance agencies.

The loan originating from the MMM Development Bank, for an amount not to exceed US \$XXX (XXXX Domestic currency

units), has been drawn down in various currencies equivalent to US \$XX (XXX Domestic currency units) to pay suppliers in their required currencies. Interest is payable semi-annually at a rate of 5.75 percent on the outstanding balance. The loan is currently within the second year of a five year grace period. Interest payable during the grace period is financed under the loan. Debt service will commence in 200X + 6 based on fixed semi-annual payments for 20 years plus accrued interest.

The loan originating from the CCC Bilateral Agency, for an amount not to exceed Euro XXX (XXXX Domestic currency units), has been drawn down to pay the foreign drilling contract and domestic contractors in the amount of Euro XX (XXX Domestic currency units). The loan is in the second year of a five year grace period. Interest is accruing at the rate of 5.50 percent and is payable semi-annually. Interest is financed from the proceeds of the grant from the National Government during the grace period. Debt service will commence in 200X+6 based on fixed semi-annual payments for 15 years plus accrued interest.

Debt service payments for 200X+6 and subsequent years are based on a fixed payment of principal plus accrued interest. Interest payments are based on the estimated outstanding balance of each loan at the end of year 200X+5 and the fixed interest rates set under each loan. Debt service payments denominated in foreign currencies have been determined by applying the closing rate of exchange on the date of these financial statements to the foreign currency amount.

	200X+6 and Subsequent Years		
	US Dollar	Euro	Total
MMM Development Bank	X	-	X
CCC Bilateral Agency	-	X	X
Closing Balance	X	X	X