

**ED 32 – Additional Field Test Reports
Overview of Field Test Results**

Introduction

An additional field test report has been received from the Ministry of finance of Estonia. That report is attached.

Field testing is also underway in Tadjikistan and Indonesia. Staff will include field test reports from these countries in the next distribution of materials to the IPSASB.

Summary: Field Test Report – Ministry of Finance, Estonia

As noted in the attached field test report, Estonia has adopted the accrual basis for financial reporting. However, state and local governments currently prepare cash basis budgets. Estonia plans to move to accrual budgets for these entities for the 2010 fiscal year.

The Ministry of Finance carried out a field test of ED 32 on both the cash budget fulfillment report and the accrual basis financial statements for 2006.

The field test report reflects that:

- In respect of the cash fulfillment report – information about total external assistance received in cash, whether in the form of grants or loans, is presented. However, information to support other disaggregated disclosures is not available - including disclosure of the uses of assistance by major class, and disclosure of the amounts received by major class of provider; and
- In respect of the accrual financial statements – while ED 32 is not a proposed accrual basis IPSAS, data is currently collected (or will be available within the short term) which would support all required disclosures on an accrual (rather than cash) basis. Significantly, given that this was a matter of concern to a number of respondents to ED 32, the report notes that balances of undrawn loans and grants are currently disclosed – “external assistance committed under a written agreement but not yet drawn”.

The field test report notes that data coding is not currently sufficiently sensitive to identify as separate classes: multilateral and bilateral aid agencies and other agencies which are providers of external assistance. ED 32 does not actually require that bilateral or multi lateral agencies be identified as a separate class for disclosure purposes – rather it uses these groupings as examples of a class and illustrates their disclosure. However, this interpretation of the intent of the ED by field testers who are very familiar with the ED, prompts staff to consider whether commentary in paragraph 1.10.14 of agenda item 13.4 should clarify that the identity of the classes are not specified in the IPSAS. Distinguishing between multilateral and bilateral agencies and NGOs is of course more important – the disclosures in the proposed IPSAS Part 1 are required to be made in respect of external assistance received from foreign governments and their agencies, and multilateral and bilateral aid agencies - but they are only encouraged in respect of assistance provided by NGO’s.

In respect of encouraged disclosures, the field test report notes that disclosures of the:

- amount provided by each provider may be onerous in respect of the government’s consolidated financial – given that many donors provide resources to individual agencies as well as to the government itself;
- terms and conditions that determine access to, or limit the use of, external assistance resources may be onerous in respect of the government’s consolidated financial statements – given the range of agreements that may be in place; and
- details of the change in undrawn balances of loan and grant assistance during the reporting period are not currently disclosed, but would be useful.

From: Juta Maar [juta.maar@fin.ee]

Sent: Monday, 16 October 2007 4:56 PM

To: Paul Sutcliffe

Subject: RE: Potential to Field Test "Financial Reporting Under the
Cash Basis of

Accounting - Disclosure Requirements for Recipients of External Assistance"

Attachments: ED_32_Field_Test_Estonia.doc

Dear Mr Sutcliffe

Please find a brief report from the Ministry of Finance of Estonia about
Exposure Draft ED 32 (attached in a separate file).

Thank you for offering the field testing to us. We really consider that was
useful for us to get a picture of to what extent we have been complied with
the modern requirements of financial reporting and what will be useful to
add in our data collecting and disclosing systems in the future.

Best regards

Juta Maar

ED 32 “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance”

Field Test Report - Ministry of Finance of Estonia

About the current basis of financial reporting in Estonian public sector entities

Starting from year 2004 The Ministry of Finance of Estonia enforced General Accounting Principles for Public Sector. Since that year the accrual bases of accounting has been applied. Before 2004 accounting was held partly on the cash bases (for example revenues) and partly on the accrual bases (some types of expenses since 1996).

However the state and most of our local governments still prepare their budget on the cash bases and accountants keep information about the budget fulfillment also on the cash bases. Just now we are working out the new principles and technical systems for the accrual-based budgeting and our aim is to introduce the accrual based budget starting from the year 2010.

Currently the Ministry of Finance collects both the accrual accounting information (from all public sector entities) and the cash based budget fulfillment information (from the central government entities). Based on gathered information the annual report of the government is prepared and submitted to the Parliament. It's also important to clarify that the accrual accounting information collected and presented in the annual financial statements is much more comprehensive than the cash based budget and budget fulfillment information.

1. The most recent financial statements to apply ED 32 for testing purposes

We have finalized the annual report 2006 of the government and the test of ED 32 based on that report.

We have presented the following information about external assistance in our annual report 2006:

- a) cash based budget and budget fulfillment report – total external assistance received in cash, separately loans and grants; due to our data collecting systems we are not able to divide cash based information by attributes such as who it was received from (from bilateral or from multilateral assistance agencies or from other) or to what activity it was spent on, etc;
- b) accrual-based financial statements and notes to the financial statements include large scale of information separately about transfers, loans and guarantees; for example, about transfers (according to the accounting principles as set out in IPSAS 23) the following information is available:
 - b.1) revenue, receivables and liabilities by significant classes of transferors:
 - foreign transferors, including separately different funds of European Union;
 - domestic transferors, including separately other public sector entities (not consolidated);

b.2) revenue from transfers by the purposes for which external assistance was received (we use COFOG activity codes for division):

- to be used for specific current expenses:
 - education;
 - social protection;
 - etc;
- to be used specifically for purchasing of fixed assets:
 - education;
 - social protection;
 - etc;
- transfers, where specific usage was not required and checked:
 - education;
 - social protection;
 - etc;

b.3) transfers by payment type:

- received in cash;
- direct payments from external assistance agencies to the recipient entities for goods and services provided;
- goods and services in-kind (only those reliable measured);

b.4) non compliance with significant terms and conditions, amounts and reasons of cancelled assistance;

b.5) external assistance committed under a written agreement but not yet drawn.

Basically, we can claim, that we have gathered also all the information needed to be disclosed about loans and guarantees according to the ED 32. Compared with grants, it is more simple to us, because we don't take/give any significant loans and guarantees at the present (except capital lease).

2. Whether there are parts of the required component of the ED (part 1) that Estonian government could not comply with in the field test year

As it was explained above, we are not able to provide all cash-based information compulsory according to the ED 23 part 1. At the same time we can provide the required information on accrual bases to a great extent.

So far we don't have correct data about grants by such grantor types as multilateral and bilateral agencies and non-government organizations. At the moment we are continuing with our system to collect accrual data about following grantor types:

- domestic grantors:
 - central government entities (separately every entity for consolidation purposes);
 - local government entities (separately every entity for consolidation purposes);
 - NGO-s;
 - business enterprises (separately government business enterprises and local business enterprises for consolidation purposes)
 - individuals;
- foreign and multilateral grantors:
 - foreign central governments and entities under their control;
 - foreign local governments and entities under their control;

- European Union funds and agencies;
- other multilateral agencies;
- business enterprises and NGO-s;
- individuals.

To be honest, it's a bit confusing to me, how to examine, who of the foreign grantors was a multilateral or a bilateral assistance agency or who was a non-governmental organization. Although we use special codes for different contractor types, I'm not sure the data is always correct. Probably it's our problem and we should add more explanations to our instructions to get more true data.

3. Whether Estonian government could structure its data collection system to generate data to comply with all requirements within a short period of time?

We can provide all required significant data on the accrual bases. After one year we can be more exact with the different grantor types as well.

4. Whether Part 1 of the ED requires the disclosure of information which is not currently available, and which is unlikely will be able to be generated however long transitional period is allowed?

We didn't find such requirements.

5. Whether the Estonian government could have complied with all or some of the encouraged disclosures in Part 2 of the ED in the field test year? Whether it is useful to make such disclosures?

We consider all the given disclosures useful, therefore I add only the few comments below:

Part 2: 2.1.63.

I totally agree, that each significant provider of external assistance should be encouraged to disclose in the financial statements of separate reporting entities, if the entity has some providers. But I doubt it's reasonable collecting so exact data, when for example consolidated financial statements of the Estonian government are concerned. As I explained earlier, we collect data separately by grantors, who are the entities consolidated in our financial statements. But we don't collect data by every separate grantor if they are not consolidated entities. Then we use the contractor type codes.

Part 2: 2.1.69

Again, such information is much more exact in the financial statements of a single entity, but it's quite complicated to collect from different accounting entities, preparing consolidated financial statements. We collect separately the amounts of grants specifically for current expenses or for construction of fixed assets or those that receiving entity can decide how to use it. But we usually don't collect any other terms or conditions, concerning grants, for example timing limits or quality requirements etc. Loans and guarantees of the central government of Estonia are allowed only with the permission of the Ministry of Finance (treasury) and then, of course, the information of terms and conditions is available.

6. Encouraged disclosures which could not be complied with in the field test year, but which the Estonian government believes would be useful to disclose in the future.

Part 2: 2.1.65.

So far we have disclosed only balances of undrawn loans and grants as it was required in Part 1. We agree, that it would be more informative to link the opening balances, the movements in the reporting period and the closing balances as the requirements in this paragraph suggest.

The brief report was provided by

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