

# **Review of the Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting”**

## **Report of The Task Force**

29 May 2010

Review of the Cash Basis IPSAS – Report of the Task Force (May 2010)

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## EXECUTIVE SUMMARY

The IPSAS “Financial Reporting under the Cash Basis of Accounting” (the Cash Basis IPSAS) was first issued in January 2003. It includes both mandatory requirements and encouraged disclosures. Since first issued, it has been updated with additional requirements and encouragements about the presentation of budget information and external assistance received.

The International Public Sector Accounting Standards Board (IPSASB) approved this review of the Cash Basis IPSAS in November 2008.

The primary objective of the review is to identify any major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS and determine whether it should be modified, or if further guidance should be provided, in light of these difficulties. The review is also to consider whether additional reporting requirements should be added to the Cash Basis IPSAS and whether any of the encouraged disclosures in Part 2 should be included as mandatory requirements.

During December 2008, a Task Force was appointed to lead the data collection and analysis stages of the project and make recommendations to the IPSASB on modifications/improvements to the Cash Basis IPSAS that it considers appropriate.

The Task Force adopted a two stage process for data collection and identification of issues. The first stage was the issue of a project questionnaire seeking input on broad implementation issues. The second stage was to involve “follow-up” discussions with respondents to the questionnaire and other interested parties on a one-to-one basis, or in regional round-table forums or conferences.

A total of 46 responses were received to the questionnaire. Respondents included accountants-general, auditors-general, accounting bodies and others in 34 countries. Responses were also received from officers of one state government, two regional or international representative bodies and four international public finance management experts.

Opportunities for follow-up discussion with respondents in round-table forums and conferences were more limited than had been anticipated. Consequently, Task Force members and staff made use of their contacts at Ministries of Finance and other government organizations, and with PFM experts to further explore matters raised in responses to the questionnaire.

Respondents confirmed that the Cash Basis IPSAS is not widely adopted. The most frequently identified obstacles to its adoption are application of a “pure” cash basis model and the requirement for full consolidation. Differences between the Cash Basis IPSAS and existing legislation and practice, and the need for additional training and support are also identified as significant obstacles to its adoption.

Some respondents also identified specific “technical” requirements that give rise to implementation issues in their jurisdiction. The requirements that are more frequently identified as of concern are those relating to comparisons with budget, third party settlements, external assistance and timing of issue of financial statements. Some respondents also express concern that the size and structure of the Cash Basis IPSAS is not user friendly.

The Task Force Recommendations on these and other matters are noted below.

## *SCHEDULE OF RECOMMENDATIONS*

### **1. The Task Force recommends that:**

- The Cash Basis IPSAS should be retained, subject to modifications and restructuring as proposed in other recommendations in this Report.
- The role of the Cash Basis IPSAS and Study 14 in supporting the movement along the spectrum from the cash to the accrual basis of financial reporting should be clarified and reinforced. (Page 18)

### **2. The Task Force recommends that:**

- An IPSAS dealing with the modified cash or modified accrual basis should not be developed.
- The IPSASB should join with other international and national organizations to develop guidance on what may be encompassed under the modified cash and modified accrual bases of financial reporting. Subject to the timing and process of development of such guidance, it may be included in, or referenced by, future updates of Study 14. (Page 20)

### **3. Task Force recommends that:**

- The requirements for consolidation currently reflected in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been developed and their implications for the Cash Basis IPSAS can be considered.
- The Cash Basis IPSAS should provide for reporting of cash receipts, cash payments and cash balances of the budget sector, or other representation of the core government as adopted in the jurisdiction, as well as the whole of government.
- The Cash Basis IPSAS should include a transitional period of, for example, 3–5 years from its first adoption within which full consolidation is to be achieved. (Page 22)

### **4. The Task Force recommends that:**

- Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs. (Page 23)

### **5. The Task Force recommends that:**

- The anticipated period for issue of the financial statements as explained in paragraph 1.4.14 should not be amended. (Page 24)

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**6. The Task Force recommends that:**

- The IPSASB clarify the relationship between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures to be made about each. (Page 25)

**7. The Task Force recommends that:**

- Certain of the encouraged disclosures about the sources and uses of external assistance funds currently included in Part 2 of the Cash Basis IPSAS be considered for reclassification as required disclosures and included in Part 1 of the IPSAS. (Page 26)

**8. The Task Force recommends that:**

- The IPSASB consider the applicability for financial reporting under the Cash Basis IPSAS of any requirements or encouragements emerging from projects dealing with narrative reporting and reporting service performance during the development of those projects. (Page 26)

**9. The Task Force recommends that:**

- Subject to amendments that arise as a consequence of adoption of other of these Recommendations, the operation of the requirements of Section 1.9 of Part 1 of the Cash Basis IPSAS “Presentation of Budget Information in Financial Statements” be reviewed at the same time as the review of IPSAS 24 “Presentation of Budget Information in Financial Statements”. (Page 27)

**10. The Task Force recommends that:**

- Additional detailed required or encouraged disclosures about financial instruments not be added to the Cash Basis IPSAS. (Page 28)

**11. The Task Force recommends that:**

- Part 2 of the Cash Basis IPSAS be deleted. Explanation in Part 2 which directly supports the application of Part 1 of the Cash Basis IPSAS should be relocated to Part I of the Cash Basis IPSAS and retained.
- The IPSASB consider developing and making available on its website a checklist of the disclosures required by the Cash Basis IPSAS.
- Illustrative examples of encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in their cash (or modified cash) basis GPFs be made available through other mechanisms, including by their inclusion in Study 14. (Page 29)

**12. The Task Force recommends that:**

- The IPSASB continues to explore with IFAC Boards and Committees as appropriate, mechanisms to support education and training needs of developing economies, particularly as they relate to the design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS and the needs of other key stakeholders.
- A supply of hard copies of English, French and Spanish translations of the revised Cash Basis IPSAS be printed and made available for distribution in developing economies.  
(Page 31)

## INTRODUCTION

### *Background – development of the Cash basis IPSAS*

When first initiated, the IPSAS development program encompassed the development of standards for financial reporting under the modified-cash and modified-accrual bases of accounting, as well as under the cash and accrual bases. However, most respondents to early exposure drafts of the proposed IPSASs and an Invitation to Comment “The Development of International Public Sector Accounting Standards – Which Bases of Accounting” (issued in 1999) argued it was not appropriate or desirable to develop standards for the modified-cash and modified-accrual bases. They were of the view that while use of a modified-cash or modified-accrual basis for financial reporting reflected a desire to be more accountable and transparent than was possible under a “pure” cash basis, the modifications were not necessarily underpinned by any general principles but responded to the circumstances and capacities of each jurisdiction – they reflected the practical realities of what was achievable at a particular time in a particular jurisdiction. Therefore, the nature of the modifications in place could well differ from jurisdiction to jurisdiction, and attempts to standardize modifications across all jurisdictions could act as a disincentive to ongoing developments in financial reporting.

As a consequence, the standards development program was refocused to develop IPSASs on only the cash and accrual bases.

The Cash Basis IPSAS “Financial Reporting under the Cash Basis of Accounting” (the Cash Basis IPSAS) was first issued in January 2003, with an initial application date of 1 January 2004. It is a comprehensive IPSAS for financial reporting on a “pure” (rather than a modified) cash basis. It includes mandatory requirements (identified in Part 1 of the IPSAS) and encouraged additional disclosures (identified in Part 2 of the IPSAS).

Since first issued, the Cash Basis IPSAS has been updated with additional requirements and encouragements dealing with the presentation of budget information in financial statements (2006) and the disclosure of information about external assistance (2007).

### *Objectives of the review and role of the Task Force*

The International Public Sector Accounting Standards Board (IPSASB) approved the Project Brief for this review of the Cash Basis IPSAS in November 2008.

The Project Brief specifies that the primary objective of the project is to identify any major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS and determine whether it should be modified in light of these difficulties, or if further explanation or guidance should be provided. The review is also to:

- consider whether additional reporting requirements should be added to Part 1 of the Cash Basis IPSAS; and
- seek input on whether any of the encouraged additional disclosures in Part 2 of the Cash Basis IPSAS should be included as mandatory requirements in Part 1.

In December 2008, the IPSASB appointed a Task Force to lead the initial data collection and analysis phase of the review and to make recommendations on any modifications that should be

made to the Cash Basis IPSAS or additional guidance that should be provided to support its application. The IPSASB also requested the Task Force to make recommendations on whether additional disclosures about financial instruments should be required or encouraged by the Cash Basis IPSAS, and the nature of any such disclosures.

The IPSASB will consider the Task Force recommendations and, if accepted, include any recommended amendments in due process documents proposing revisions to the Cash Basis IPSAS.

The Task Force Members are identified at Appendix E and the Project Brief is included at Appendix F.

## **TASK FORCE ACTIVITIES AND PROCESS**

As specified in the Project Brief, the Task Force has operated primarily on an electronic basis. It met once in early 2009 to agree operating processes and responsibilities, and again in early 2010 to agree recommendations to be included in its final Report to the IPSASB.

The Task Force reviewed IPSASB and IFAC “in-house” resources, relevant reports of international organizations, a number of research articles and websites of the Ministry of Finance in a number of developing economies with the objective of identifying jurisdictions that have adopted, or have considered adopting, the Cash Basis IPSAS and, therefore, could provide input on implementation issues.

A potential population base of some 60 jurisdictions was identified from these sources (for more details see Task Force progress report to the IPSASB meeting February 2009 – Agenda Item 6). However, the Task Force was concerned that some of the “in-house” reports, articles and surveys included data that was, or may be, out of date. Consequently, the Task Force determined that it would not limit its data gathering activities to only those 60 jurisdictions but would adopt a broader two-stage process for data collection and identification of issues as follows:

- Stage 1 – the issue of a project questionnaire seeking input on broad implementation issues from developing economies which have adopted or are intending to adopt the Cash Basis IPSAS, and from PFM experts, users and others with experience of the Cash Basis IPSAS; and
- Stage 2 – “follow-up” discussion with those that responded to the questionnaire and other interested parties on a one-to-one basis, or in regional round-table forums or conference.

### ***Phase 1 – distribution of the questionnaire***

The project questionnaire was issued in April 2009, with a request for responses by 15 July 2009. However, the Task Force continued to accept responses during August and September 2009.

The project questionnaire and supporting explanatory material was prepared in English and translated into French, Spanish and Russian. It was distributed widely by Task Force and IPSASB members and staff and their wider contact networks to members of the financial reporting community and others in developing economies around the world. The IFAC Developing Nations Committee (IFAC – DNC) and many others, including many international organizations, also supported distribution of the project questionnaire. Recipients of the questionnaire included users of government financial statements, accountants-general/ministries



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of finance or similar, auditors-general or similar, international development and aid organizations, accounting bodies and individual PFM experts.

A copy of the project questionnaire (English version) is attached at Appendix C. Appendix D outlines the sources reviewed by the Task Force to build its data base, and the activities undertaken by Task Force and IPSASB members and others to ensure a wide distribution of the project questionnaire to relevant parties.

Senior members of international organizations operating in developing economies advised that, to encourage a wide range of interested parties to provide input to the review, individual responses should remain confidential. Consequently, explanatory material accompanying the project questionnaire noted that while the Report to the IPSASB may include summaries of the major issues identified on a regional basis, the identity and individual jurisdictions of those responding to the questionnaire will not be made public without prior consent. Task Force members and staff also made this point in presentations made in support of the project. Task Force members and staff have discussed and clarified observations made with some respondents and confirmed that respondents are comfortable with their inclusion in the list of respondents (Attachment A). However, the Task Force has not sought permission to make public the individual responses. Accordingly, this Report provides only an overview of responses by region.

***Phase 2– follow-up discussions***

The Task Force identified a number of matters arising from responses to the project questionnaire that were to be discussed in interviews, seminars and round-table forums during the second phase of the project. These included additional input on the modifications to the Cash Basis IPSAS reflected in current practices in particular jurisdictions and regions, and the reasons therefore.

The Task Force explored opportunities for round-table or similar discussions in a number of regions with those that had supported distribution of the project questionnaire and with some respondents. However, opportunities for round-table and similar group discussions were limited during the time frame for the review – they comprised:

- a round-table discussion in Sao Paulo in September 2009 in conjunction with the CReCER conference. While the round-table provided an useful forum to engage with some 20 local area constituents, issues and concerns with the Cash Basis IPSAS additional to those already identified in responses to the project questionnaire were not identified<sup>1</sup>; and
- discussion of the Cash Basis IPSAS at a number of sessions during a major Pan-African conference held in Nairobi in November 2009<sup>2</sup>. While there was extensive discussion of the Cash Basis IPSAS, issues additional to those identified in responses to questionnaire were not raised.

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<sup>1</sup> IPSASB members Mike Hathorn and David Bean and Task Force Members Simon Bradbury and Ronaldo Rotter participated.

<sup>2</sup> IPSASB members Erna Swart (the Task Force Chair), Andreas Bergman (Task Force member), Ron Salole, Thomas Müller-Marqués Berger and Anne Owuor participated in the conference.

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To gain additional input, Task Force members and staff followed-up with individual government officials and/or PFM experts involved in implementation of the Cash Basis IPSAS or modified cash basis systems (in person or by electronic means) in a number of jurisdictions including: Afghanistan, Indonesia, Iraq, Lao, Kosovo, Kirgizstan, Nigeria, Palestine, South Africa, Sierra Leone, Tajikistan, Uganda and Vietnam. Task Force members also made use of their contacts at Ministries of Finance and other organizations to gain additional perspectives on matters raised in the questionnaire and other issues relevant to adoption of the Cash Basis IPSAS.

The Task Force is of the view that substantial issues in the implementation of the Cash Basis IPSAS additional to those identified in responses to the project questionnaire were not identified in the follow-up discussions undertaken as part of this review. However, Task Force members noted that in follow-up discussions, a number of jurisdictions sought clarity and additional guidance on what should, or may, be encompassed in modified cash and modified accrual bases of financial reporting.

***Progress reports***

The Task Force provided detailed progress reports to the IPSASB at meetings in February, May and December 2009.

**RESPONSES TO THE PROJECT QUESTIONNAIRE**

A total of 46 responses to the questionnaire were received. Respondents included accountants-general, auditors-general, accounting bodies and others in 34 countries. Responses were also received from an auditor-general of a state government, one regional and one international representative body and four international public finance management experts. Of these, 11 responses had no substantial comment to make on specific issues raised in the questionnaire, largely because they had adopted, or were focused on adoption of, the accrual basis (6 responses) or had adopted a modified cash basis and not considered the Cash Basis IPSAS (3 responses).

Figure 1 provides an overview of responses. Appendix A identifies the organizations and individuals that have responded by type, geographic location and language.

**Figure 1 – Responses to the Project Questionnaire**

Region	Accountant General, Std Setter	Auditor General	Accounting Body	Individual PFM expert	Total
<b>Africa</b>	10*	8	1	3	<b>22**</b>
<b>South/S–East Asia</b>	4	1	3		<b>8</b>
<b>Europe/Central Asia</b>	4		2		<b>6</b>
<b>Latin America</b>	1		2		<b>3</b>
<b>North Africa &amp; Middle East</b>		2			<b>2</b>
<b>International</b>			1	4	<b>5</b>
<b>Total</b>	<b>19</b>	<b>11</b>	<b>9</b>	<b>7</b>	<b>46</b>

*\*Includes a combined response from the Accountant General and Auditor General in one jurisdiction and from the Accountant General, Auditor General and national standard setter in another jurisdiction.*

*\*\*More than one response was received in respect of current practice in 4 jurisdictions*

As identified in Figure 1, there was a very strong response from ministries of finance/accountants-general, auditors-general and representative bodies in Africa where a cash or modified cash basis of accounting is widely adopted. There was also a fairly good response from

developing economies in South/South East Asia and Europe/Central Asia, where language differences have often proved a major obstacle to achieving good response rates to IPSASB-EDs and surveys in the past.

The Task Force is disappointed with the number of responses from Latin America, North Africa and the Middle East where it is anticipated that a cash or modified cash basis is widely adopted. This is particularly so given the substantial efforts of Task Force and IPSASB members and their colleagues at the InterAmerican Development Bank (IADB), the World Bank, the IMF and the IFAC – DNC to ensure that the project questionnaire was widely distributed and promoted to relevant bodies in their region.

Some light was shed on the poor response from Latin America at the round-table in Sao Paulo where participants noted that financial reporting by most governments in Latin America had moved past the “pure” cash basis to a modified cash basis – consequently, strengthening the Cash Basis IPSAS would provide little benefit, and was of little interest, to most countries the region.

Appendix D identifies the distribution activities undertaken by the Task Force and others.

### ***Adoption of the Cash Basis IPSAS***

Responses to the project questionnaire confirm that the Cash Basis IPSAS has not been widely adopted – the Cash Basis IPSAS was identified as being adopted at national level in 5 of the 34 countries for which responses were received (Africa–2, South East Asia–1, Europe and Central Asia–1, with progress towards full adoption well underway in another jurisdiction<sup>3</sup>). However, in one of these jurisdictions, the Auditor-General and Accountant-General have different views about whether the Cash Basis IPSAS has been fully adopted – at issue being whether full consolidation of all controlled entities, including government business entities (GBEs), has occurred. There was also conflicting views about full adoption in another jurisdiction.

The four individual international PFM experts who responded to the questionnaire did not identify any jurisdictions as having fully adopted the Cash Basis IPSAS.

Respondents also identified that a modified form of cash basis accounting had been adopted in 23 jurisdictions as follows: Africa – 13, South and South East Asia –5, Europe and Central Asia – 2, North Africa and the Middle East – 2 and Latin America – 1. The most frequently identified modifications to the Cash Basis IPSAS are the recognition of some accruals in the primary financial statements, including cash flows that occur within a specified period (often 60-90 days) following the end of the reporting period, and the preparation of financial reports which do not consolidate all controlled entities.

Figure 2 below provides an overview of adoption of the Cash Basis IPSAS and a modified cash basis of accounting as identified by respondents to question 1 of the project questionnaire.

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<sup>3</sup> The Task Force was also advised by one jurisdiction that it was currently implementing the Cash Basis IPSAS at the national level but as yet was not sufficiently progressed to submit a useful response.

Figure 2 – Form of Cash Basis adopted

Region	Basis of Accounting adopted			Total
	Cash Basis IPSAS fully adopted	Modified Cash Basis adopted***	Accrual basis or basis not identified	
Africa	3*	15*	4	22
South/East Asia	1	5	2	8
Europe/Central Asia	2**	2	2	6
Latin America		1	2	3
North Africa & Middle East	–	2	–	2
International	1	1****	3	5
<b>Total</b>	<b>7</b>	<b>26</b>	<b>13</b>	<b>46</b>

\* includes two responses from one jurisdiction (cash basis) and two jurisdictions (modified cash).

\*\* includes one response which signals an intention and significant progress on full adoption.

\*\*\* includes some responses which note an intention to adopt the Cash Basis IPSAS in the future.

\*\*\*\* notes experience with modified cash basis, but does not identify the jurisdiction(s).

#### *Other recent surveys*

During 2009, the International Organization of Supreme Audit Institutions (INTOSAI) Subcommittee on Accounting and Reporting undertook a survey of INTOSAI's 189 members to determine the Financial Accounting and Reporting Standards adopted in their jurisdictions. (The IPSASB was provided with the survey findings at its meeting in September 2009. The survey can also be accessed from the INTOSAI website at [http://psc.rigsrevisionen.dk/media\(1188,1033\)/SurveyOnAccounting.pdf](http://psc.rigsrevisionen.dk/media(1188,1033)/SurveyOnAccounting.pdf).)

The regional classification of countries adopted by INTOSAI is not the same as that adopted by the Task Force, and the INTOSAI survey was not limited to only developing economies. However, responses received to the Task Force project questionnaire present a substantially different picture of adoption of the Cash Basis IPSAS from those reported by INTOSAI members. For example the INTOSAI survey identifies that a total of 26 countries currently adopt the Cash Basis IPSAS as follows: Africa – 9, Asia – 5, Europe – 5, Middle East – 3, Latin America and Caribbean – 4 and Pacific and South Pacific – 4 (note four of these 26 countries appear in more than one region). It also identifies that around 15 additional countries plan to adopt the Cash Basis IPSAS in the future: Africa – 5, Asia – 5, Europe – 3 Middle East – 1 and Latin America and Caribbean – 2, Pacific and South Pacific – 1 (note two of these 15 countries appear in more than one region).

A recent review of publicly available literature, including reports of international organizations such as the World Bank and the Asian Development Bank, dealing with accounting bases adopted in 107 low and middle income countries provides further input on adoption of the Cash Basis IPSAS (P. Butzerin, May 2009, Zurich University of Applied Science). That review concluded that while only 5 countries had adopted the Cash Basis IPSAS, 52 countries were considering its adoption (SE Asia and the Pacific – 15; Europe and Central Asia – 12; Latin America and the Caribbean – 5; Middle East and Africa – 20). In 13 cases, adoption of the Cash Basis IPSAS was intended as a precursor to the adoption of the accrual IPSASs.

These results indicate that there is still an appetite for the Cash Basis IPSAS amongst many IPSASB constituents. However, the author of the review notes that in many cases the literature reviewed refers to the intention to adopt IPSASs without distinguishing between the accrual IPSASs or the Cash Basis IPSAS, and it has been assumed that all such references are to adoption of the Cash Basis IPSAS. Whether this will be true in all cases is questionable.

### *Issues identified by respondents*

Respondents to the project questionnaire identified a number of specific technical issues that could usefully be addressed in any review of the Cash Basis IPSAS, and made proposals for modifications to the required or encouraged disclosures. The need for additional guidance and mechanisms to enhance the accessibility of the Cash Basis IPSAS were also noted. In many cases, these matters were raised by only one or two respondents – however, a fairly clear picture emerges of the matters that are of major concern to most respondents, including the areas of the Cash Basis IPSAS that are perceived as the major obstacles to its adoption.

An overview of the major themes and issues identified by respondents to each of the questions included in the project questionnaire is presented below. Appendix B provides a more detailed summary of responses to each of the questions in the project questionnaire.

### *Question 1: Major implementation issues and modifications to the Cash Basis IPSAS*

The most frequently identified obstacles to adoption and ongoing application of the Cash Basis IPSAS (and/or most frequently identified modifications that have been made to it) relate to:

- application of a “pure” cash basis (13 respondents) – there was considerable support for keeping the books open for some time after period end and, in some cases, to recognizing receivables, payables and some other assets and liabilities. (However, as is noted later in this Report, it is not clear that the same modifications to the pure cash basis are adopted in each jurisdiction); and
- the requirement for consolidation of all controlled entities (13 respondents) – full consolidation was not widely supported or adopted, particularly in respect of consolidation of GBEs. (Reasons for this view are noted below in responses to Question 3.)

The following were also identified as additional significant obstacles to adoption of the Cash Basis IPSAS in some jurisdictions:

- differences between the Cash Basis IPSAS and existing legislation and practice (7 respondents); and
- the need for additional training and support (6 respondents).

A number of respondents identified specific requirements of the Cash Basis IPSAS that gave rise to implementation issues in their jurisdiction. For the most part these were identified by only a single respondent. However, satisfying the requirements for comparisons with budget (5 respondents), and access to data to satisfy requirements relating to external assistance (3 respondents) and third party settlements (2 respondents) and were more frequently identified as obstacles to achieving compliance with the Cash Basis IPSAS. The concerns and modifications identified in response to question 1 were reinforced and built on in responses to questions 2, 3, 4 and 5 as outlined below.

See Appendix B Figures 1 and 2 for a more detailed summary of responses to question 1.

*Question 2: Improvements and/or amendments to the Cash Basis IPSAS*

In response to this question, the following were identified most frequently as the amendments that should be made to assist in the adoption and/or ongoing application of the Cash Basis IPSAS:

- Accruals – allow for recognition of some accruals (9 respondents);
- Consolidation – consolidation should not be mandatory, more time should be allowed for its adoption, and/or additional guidance provided on its adoption (8 responses);
- Presentation of budget information – align IPSAS with budget structure and/or enhance budget/actual comparisons (6 responses);
- Structure/focus – the Cash Basis IPSAS is too large and complex (4 respondents);
- Third party settlements – more guidance should be provided (4 respondents);
- Transition to the accrual basis – additional guidance/support on transition to accrual and adoption of the encouraged disclosures (3 respondents); and
- Timing of completion – 6 months is too demanding/not justified (3 respondents).

See Appendix B Figure 5 for a more detailed summary of responses to Question 2.

*Question 3: Consolidation practices and policies*

Nine (9) respondents from eight (8) jurisdictions (Africa – 6, Latin America – 2) reported that full consolidation occurred for at least one level of government (national, state or local level) in their jurisdiction. Two other respondents (Africa – 1 and South Asia – 1) noted that full consolidation does not occur yet, but existing policy/intention is to fully consolidate in the future.

The reasons for non-consolidation cited most frequently were as follows (in some cases, two or more of these reasons were identified by the respondent as applying in their jurisdiction):

- Contrary to government policy (18 responses); and
- Practical difficulties including:
  - different accounting policies and/or reporting dates (11 responses); and
  - identifying controlled entities and gaining access to relevant data (10 responses).

Two respondents also expressed a concern that it was not appropriate to consolidate all controlled GBE's and local and state governments with national governments.

See Appendix B Figure 4 for a more detailed summary of responses to question 3.

*Questions 4 and 5: The statement of cash receipts and payments and required and encouraged disclosures*

There was strong support for the requirements relating to the statement of cash receipts and payments, and the demarcation between required and encouraged disclosures as identified in the Cash Basis IPSAS – for example:

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- 28 responses expressed the view that requirements for the preparation of the Statement of Cash Receipts and Payments and related note disclosures were appropriate for financial reporting under the cash basis – 3 responses identified that they were not appropriate and the remainder did not express a view; and
- 21 responses expressed the view that the disclosures classified as required and those classified as encouraged were appropriate for financial reporting under the cash basis – 2 responses identified that they were not appropriate and the remainder did not express a view.

However, many respondents also registered or reinforced their concerns about the prohibition on recognition of certain accruals in the financial statements and the requirement for full consolidation. The most frequent proposals for amendment to the requirements of the Cash Basis IPSAS were to allow for presentation of certain accruals in the financial statements, and provision for additional financial statements to accommodate such presentations (noted in 10 responses to question 4 and in 11 responses to Question 5).

Amendments to simplify, clarify and/or enhance requirements for comparison of budget and actual amounts (9 responses) and inclusion of requirements for disclosure of additional information about external assistance (5 responses) and service outcomes (3 responses) were also frequently identified. For the most part, responses did not include details of the nature of the amendments favored or additional disclosures required. Respondents also advocated that the Cash Basis IPSAS include an encouragement to disclose information about the general government sector as per IPSAS 22 (4 responses).

See Appendix B Figures 6 and 7 for a more detailed summary of responses to Question 4 and 5.

***Interpreting the responses***

As is apparent, there is significant overlap in responses to the questions posed by the Task Force, with respondents often (but not always) identifying the same issues/concerns in response to different questions. In addition, more than one response was received from some jurisdictions. Consequently, the raw number of respondents identified as holding a particular view on an issue is not significant of itself.

However, similar issues and concerns are identified in responses to many of the questions posed in the project questionnaire. The Task Force is of the view that the frequency of identification of an issue, concern or proposal for modification to the Cash Basis IPSAS provides a clear message about the major concerns that ministries of finance, accountants – general and auditors-general (or similar) in developing economies, and PFM experts working with those economies, have with the Cash Basis IPSAS. The follow-up discussions, whether on an individual basis or in round-table discussions or conference forums, tended to confirm that responses to the project questionnaire had captured the major issues in each region.

**TASK FORCE RECOMMENDATIONS**

The issues identified by respondents to the project questionnaire and in follow-up discussions and ongoing consultation can usefully be grouped under the broad headings of:

- Retain the Cash Basis IPSAS or develop an IPSAS on the modified cash basis;

- Consolidation;
- Technical and Disclosure Issues;
- Structure; and
- Capacity and Capability Issues.

Task Force recommendations are grouped under these broad heads.

## **RETAIN THE CASH BASIS IPSAS OR DEVELOP AN IPSAS ON THE MODIFIED CASH BASIS**

The Task Force was mandated to consider issues related to implementation of the Cash Basis IPSAS, and to make recommendations about any modifications to the IPSAS or additional guidance in light of those issues. Many respondents to this review proposed that the IPSAS be amended to reflect a modified cash basis of accounting by allowing for the recognition of some accruals – this was the most frequently proposed amendment to the IPSAS. This is not strictly an issue relating to implementation of the Cash Basis IPSAS. However, the Task Force believes that it cannot ignore the matter and the Report should include its views on whether an IPSAS dealing with financial reporting under a modified cash basis should be issued to replace, or as an addition to, the Cash Basis IPSAS. It is a fundamental issue and will condition the Task Force's response to other matters identified by those that provided input to this review.

The Cash Basis IPSAS identifies how general purpose financial statements should be presented under the cash basis of accounting, and the information to be included in those statements. The "Objective" section explains that disclosures about cash receipts, cash payments and cash balances are necessary for accountability purposes and provide input useful for decision making. It also explains that compliance with the Cash Basis IPSAS will enhance comparability and consistency in financial reporting under the cash basis. Compliance with the Cash Basis IPSAS is also intended to provide a sound base for jurisdictions intending to transition to the accrual basis of accounting over the longer term

While responses to the project questionnaire indicate that few jurisdictions fully adopt the Cash Basis IPSAS, some other recent surveys provide different results. In addition:

- a number of developing economies (particularly in South and East Asia and Africa) report an intention to adopt the Cash Basis IPSAS;
- the World Bank and other international organizations actively promote and support the adoption of IPSASs, including the Cash Basis IPSAS; and
- other jurisdictions are influenced by the requirements of the Cash Basis IPSAS as they develop their domestic reporting requirements.

The Task Force acknowledges that many jurisdictions have moved beyond the pure cash basis to report on a modified cash (or modified accrual) basis, and sees merit in that movement. It also acknowledges that there is merit in the view that the IPSAS could usefully be rebadged as guidance which provides a reference point for a country in re-designing or improving its government accounting system, rather than as a set of requirements which are to be fully complied with in all circumstances. This will allow some flexibility for countries to adopt the



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substance of the IPSAS and also respond to the legislative requirements which define the government accounting system in each jurisdiction. However, on balance, the Task Force is of the view that while the Cash Basis IPSAS is in need of some “refreshing” and restructuring to make it more user friendly, it is performing an important role by providing an authoritative yardstick for comprehensive and transparent financial reporting when a cash basis of accounting is adopted. Consequently, it should not be decommissioned as an IPSAS. Its retention as an IPSAS, will also keep faith with those jurisdictions which have adopted it, or are intending to do so, and will provide a basis upon which an audit opinion may be expressed.

However, the Task Force is of the view that input to this review signals that the role of the Cash Basis IPSAS and the IPSASB’s expectations regarding its adoption could usefully be clarified. This matter is considered further below.

***The role of the Cash Basis IPSAS***

The Task Force is of the view that underpinning a number of responses (and explicitly identified in some) is uncertainty about the role of the Cash Basis IPSAS and the IPSASB’s expectation about compliance with it. For example, there appears to be some uncertainty about whether the IPSASB encourages governments and other public sector entities which are not currently reporting on the accrual basis:

- to transition to the accrual basis – with the tacit acknowledgement that in so doing entities will move beyond the requirements of the Cash Basis IPSAS to modified cash and modified accrual bases? or
- to comply with the Cash Basis IPSAS, rather than adopt a modified cash or modified accrual basis?

The Introduction to the Cash Basis IPSAS explains:

*“IPSASs are being prepared for application by entities adopting the accrual basis of accounting and for application by entities adopting the cash basis of accounting.... 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.”*

The Task Force is of the view that the IPSASB’s intent is clearly reflected in this Introduction, but the message may have been lost or diminished with the passage of time since initial issue of the Cash Basis IPSAS. Accordingly, the Task Force recommends that the IPSASB reconfirm and fully explain its view on the role of the Cash Basis IPSAS. Such confirmation could usefully acknowledge that the IPSASB is aware that governments are moving past the pure cash basis of financial reporting and explain that:

- while compliance with the requirements of the Cash Basis IPSAS will enhance the accountability and usefulness of GPFs prepared under the cash basis of financial reporting, the IPSASB does not wish to constrain development along the financial reporting spectrum to the accrual basis; and
- the Cash Basis IPSAS is an important component of a transitional “package” that includes Study 14 “Transition to the Accrual Basis of Accounting: Guidance for Governments and

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Government Entities” and other IPSASB publications that outline the experience of individual jurisdictions as they transition to the accrual basis of financial reporting.

**1. The Task Force recommends that:**

- The Cash Basis IPSAS should be retained, subject to modifications and restructuring as proposed in other recommendations in this Report.
- The role of the Cash Basis IPSAS and Study 14 in supporting the movement along the spectrum from the cash to the accrual basis of financial reporting should be clarified and reinforced.

***An IPSAS on the modified cash basis***

In some jurisdictions, financial reporting legislation or regulation provides for the government’s books to “remain open” for a specified number of days after period end – therefore, the financial statements for the period encompass some post-period cash flows. This is often described as a modified cash basis of financial reporting. In other jurisdictions, reporting on a modified cash basis can mean that certain receivables and payables and some other assets and liabilities are recognized in the financial statements.

While evidence from responses to the project questionnaire was not conclusive, follow-up discussions undertaken by some Task Force members reinforce a view that the period for which the books are left open and the extent and nature of assets and liabilities that are recognized in the financial statements can differ from jurisdiction to jurisdiction. In addition, as financial reporting becomes more robust and jurisdictions include more accrual information in GPFRs, the modifications change – for example, the period that the books are left open after period end may shorten and the structure of the financial statements evolve to accommodate more accrual information.

An authoritative definition of the modified cash basis of financial reporting, and the form and content of financial statements that should be presented under such a basis, is not included in the IPSASB literature. Some have advocated that an IPSAS on financial reporting on a modified cash (and modified accrual) basis be developed. The Task Force is not convinced that development of an IPSAS which standardizes practices that are, and are not, to be adopted under the modified cash (or modified accrual) basis of accounting is an appropriate response to the concerns raised by those providing input to this review. The Task Force is mindful of the response to the previous attempt to develop IPSASs for the modified cash and modified accrual bases by the Public Sector Committee (PSC - the forerunner to the IPSASB), and is of the view that conditions similar to those that mitigated against the issue of standards on those bases at that time still remain – that is:

- different modifications may be in place in different jurisdictions – consequently, standardization on particular modifications may not result in substantially greater adoption of the IPSAS; and
- standardization may impede development along the spectrum to the accrual basis.

***Guidance on the modified cash (or modified accrual) basis***

Task Force members note that there can be significant differences in financial reports that are categorized as being prepared on a modified cash basis from jurisdiction to jurisdiction, and from one period to another. In many cases, the financial reports do not describe the policies and practices adopted with sufficient clarity or consistency to enable users to fully understand key characteristics of the accounting basis adopted, or to enable an auditor to express a meaningful opinion on the accounts. This undermines the usefulness of the financial reports for accountability and decision making purposes by domestic and international users alike.

Broad definitions or explanations of the modified cash or modified accrual basis, and examples of what may be encompassed by them, are often noted in literature dealing with financial reporting in developing economies. However, the descriptions can sometimes differ and often are not sufficiently detailed to usefully direct practice. The Task Force is of the view that there is merit in the establishment of descriptions of the modified cash and modified accrual basis of accounting that are well understood and generally agreed across many jurisdictions. There is also merit in the development of guidance that is widely accepted on what may be encompassed within financial reports prepared under such bases and, critically, the accounting policy and other disclosures that should be made to enable users to better understand the basis on which such reports are prepared and the principles that underpin them. Such guidance would support increased transparency and better selection of accounting policies and practices. While including some flexibility to respond to the circumstances of different jurisdiction, it would also provide an appropriate basis upon which an auditor may express an opinion on the accounts presented.

This is likely to be of benefit to the citizens and governments of many developing nations as they transition towards the accrual basis of accounting. It will also be of benefit to those national and international organizations which rely on domestic financial reporting systems to provide relevant and reliable financial information about the provision and use of aid (and other) funds, and to compile meaningful and comparable finance statistics to support economic analysis.

Such guidance would complement Study 14 which outlines paths that may be adopted in the transition to the accrual basis and could usefully build on IFAC– PSC Study 11 *Governmental Financial Reporting: Accounting Issues and Practices* (issued in 2000), which includes descriptions and examples of financial reports prepared under modified cash and modified accrual bases. The financial reporting community would then have at its command a comprehensive package of literature to support the enhancement of financial reporting in developing (and other) economies. Such a package would include an appropriate mix of authoritative requirements (the Cash Basis IPSAS), explanation of the paths that may be adopted in the transition to the accrual basis, and necessary preconditions for such transition, (Study 14) and guidance on the nature and content of GPFs presented during that transition (guidance on modified cash and modified accrual bases). (Subject to the timing and process of development, such guidance may be included in, or referenced by, future updates of Study 14.)

The Task Force is of the view that the IPSASB and its observer group is ideally placed to initiate and participate in, if not lead, the development of such guidance. The Task Force recognizes that such an initiative would put additional pressure on the already scarce resources of the IPSASB. However, the Task Force is of the view that input to this review has identified a need for

additional guidance on these matters. Therefore, it encourages the IPSASB to identify partners to work with it on this project, and in that way leverage its resources.

**2. The Task Force recommends that:**

- An IPSAS dealing with the modified cash or modified accrual basis should not be developed.
- The IPSASB should join with other international and national organizations to develop guidance on what may be encompassed under the modified cash and modified accrual bases of financial reporting. Subject to the timing and process of development, such guidance it may be included in, or referenced by, future updates of Study 14.

## CONSOLIDATION

### *Underlying concepts and principles*

The definition of the economic entity and consolidated financial statements are applied consistently in the accrual IPSASs and the Cash Basis IPSAS. The definitions of cash and cash equivalents are also applied consistently in the Cash Basis IPSAS and the accrual IPSASs.

The Task Force notes that the consequence of this consistency in expression and application of these definitions is that, in principle:

- the entities that are encompassed within the government economic entity (sometimes referred to as the whole-of government reporting entity) will not differ dependant on whether the GPFs of that reporting entity are prepared under a cash, accrual or modified basis of accounting;
- the cash receipts, payments and balances reported in the financial statements of a government will not differ dependent on whether those statements are prepared under a cash, modified cash, modified accrual or accrual basis; and
- governments will report all the cash receipts, cash payments and cash balances they control.

Many respondents to the project questionnaire and participants in follow-up discussions identified significant concerns with the requirement for full consolidation. The provision of relief from the requirement for full consolidation was the second most frequently proposed amendment to the Cash Basis IPSAS. It is seen as the major impediment to adoption of the IPSAS in a number of jurisdictions. In some cases, the concerns go to matters of principle – for example, inclusion of the cash flows and balances of all controlled entities (and in particular GBE's) will obscure information about the cash flows of the "core" government itself. In other cases, to matters of practicality – for example, compatibility with existing legislation, ability to identify controlled entities, differences in the reporting basis adopted by GBE's and other government entities, and capacity (including the technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

The Task Force is of the view that responses to the project questionnaire do not raise conceptual issues about the notion of the reporting entity and usefulness of consolidated financial statements that apply only when the Cash Basis IPSAS is adopted. The concerns identified can (and do)

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arise when the accrual basis of financial reporting is adopted and, subject to the nature of modifications, when a modified cash or modified accrual basis is adopted. Therefore, the concerns have more general application across all bases of accounting, and should be considered in that context.

As a consequence of the response to the global financial crises (GFC), governments around the world have increased their financial support, and arguably their control, of many private sector entities, particularly in the banking sector. The Task Force appreciates that this may prompt a re-examination of the criteria that should be adopted for determining the composition of a group reporting entity and/or the circumstances in which consolidated financial statements are to be prepared.

The Task Force is aware that the IPSASB is actively considering the consequences of governments' responses to the GFC in a joint project with the IMF. The Task Force is also aware that the IPSASB is considering the concepts that underpin a reporting entity and group reporting entity as part of the Conceptual Framework project. The Task Force is of the view that changes in the principles to be applied in determining the reporting entity under the Cash Basis IPSAS should not be made in isolation of these considerations. Consequently, the Task Force is of the view that the concepts that underpin the consolidation requirements in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been developed and their implications for the Cash Basis considered.

***Practical obstacles to adoption***

Task Force members note that, in many jurisdictions, a number of the practical obstacles identified above are steadily being resolved as skills training and systems development programs are put in place, and appropriate data collection practices and policies are implemented.

In many jurisdictions, legislation establishes statutory reporting requirements that must be complied with by governments and other public sector entities. The potential for conflict with existing legislation or regulation which requires the preparation of financial reports for the general government or budget sector was frequently identified as an obstacle to adoption of the Cash Basis IPSAS – including in jurisdictions where presentation of full consolidated financial reports was not prohibited by such legislation. The inclusion within the Cash Basis IPSAS of a transitional period of, for example, 3 – 5 years within which full consolidation of all controlled entities is to be achieved would provide an opportunity for necessary changes in legislation to be processed and other initiatives directed at overcoming practical obstacles to be further developed. It would also provide time for the IPSASB to consider any relevant implications of its work on the Conceptual Framework and on the joint project with the IMF.

The Task Force is concerned that without such transitional provisions entities will not commit to adoption of the Cash Basis IPSAS, and without adoption of the Cash Basis IPSAS and the potential to report full compliance there is little incentive to move to full consolidated reports – if such requirements are to be retained in IPSASs. The inclusion of such transitional provisions will not necessarily overcome the concerns identified by those who have contributed to this review. However, there appears to be little downside to their inclusion and will enable entities to commit to, and claim compliance with, the Cash Basis IPSAS while mechanisms to overcome these practical issues are put in place.

The Task Force is also of the view that there is merit in the development of guidance, including case studies as appropriate, illustrating the process of consolidation and outlining the planning and preparatory work and judgments that may be necessary to overcome a range of practical issues.

***Presentation of information about the “core” government entity***

A number of respondents advocated that the requirements for budget reporting be simplified and/or enhanced – for the most part without providing details of the nature of that simplification or enhancement, though some noted that the IPSAS and the budget reporting basis should be more closely aligned. Some also advocated that the Cash Basis IPSAS encourage the disclosure of information about the general government sector.

Input to this review indicates that in many jurisdictions, existing legislation requires the preparation of financial reports for the “government” or “core government”- in broad terms, an entity that reflects the government budget sector or general government sector as described in government finance statistics and the accrual IPSASs. The Task Force is of the view that, together with the practical difficulties noted above, loss of information about this “core” government entity underpins the concerns that many respondents have with requirement to prepare a consolidated financial report at the whole of government level.

The accrual IPSASs provide for reporting of financial information about the general government sector in whole of government consolidated financial statements. While such disclosure is not prohibited by the current Cash Basis IPSAS, equivalent guidance to that in the accrual IPSASs is not included in the Cash Basis IPSAS. The Task Force is of the view that Part 1 of the Cash Basis IPSAS could usefully acknowledge the potential for disclosure within a consolidated whole of government report of information about the budget sector or other representation of core government as considered useful. Such an approach also has the benefit of strengthening the links between the Cash Basis IPSAS and the reporting entity notion reflected in government finance statistics.

The Task Force anticipates that, if the IPSASB accepts the recommendation of a transitional period within which full consolidation is to be achieved, many jurisdictions which adopt the IPSAS will initially prepare financial reports which include a statement of cash receipts and payments which reflect this narrower “core” government entity. The inclusion in the Cash Basis IPSAS of guidance on the nature of the general government sector or budget sector, and requirements to disclose the composition of the reporting entity, are likely to be necessary to ensure that users are aware of the scope of the reporting entity and the basis on which such reports are prepared during any transitional period.

***3. The Task Force recommends that:***

- The requirements for consolidation currently reflected in the Cash Basis IPSAS should be revisited when the reporting entity component of the Framework and the joint project with the IMF have been further developed and their implications for the Cash Basis IPSAS can be considered.
- The Cash Basis IPSAS should provide guidance on reporting of cash receipts, cash payments and cash balances of the budget sector, or other representation of the core government as adopted in the jurisdiction, as well as the whole of government.

- The Cash Basis IPSAS should include a transitional period of, for example, 3–5 years from its first adoption within which full consolidation is to be achieved.

## TECHNICAL AND DISCLOSURE ISSUES

Many respondents to the project questionnaire explicitly supported both the existing structure of the financial statements and the demarcation between required and encouraged disclosures for financial reporting under the cash basis of accounting. (See Appendix B figures 5, 6, 7.)

The specific technical enhancements and amendments proposed most frequently by respondents and not addressed elsewhere in this Report are:

- a revision to commentary to extend beyond six (6) months the time after period end that financial statements should be expected to be available;
- inclusion of additional guidance on third party payments;
- inclusion of additional required disclosures about external assistance and service outcomes; and
- enhancements to the requirements for reporting of budget and actual amounts.

The Task Force recommendations on amendments that should be made to the Cash Basis IPSAS, or actions the IPSASB should take, as a consequence of input received on these matters are noted below.

Some respondents also identified the need for the IPSAS to be reviewed and, as appropriate updated for developments in financial reporting since its initial issue – such a review would include revisiting and “refreshing” requirements and the encouraged disclosures for changes and developments in the equivalent accrual IPSASs.

The Cash Basis IPSAS was approved in late 2002 and first issued in early 2003. This is its first review. The Task Force is of the view that, as part of the IPSASB’s ongoing maintenance of IPSASs, Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs. The timing and frequency of such review would be dictated by such matters as the extent and significance of changes in the related accrual IPSASs, input from IPSASB constituents on the need for any amendments to the Cash Basis IPSAS and the availability of capacity in the IPSASB’s work program.

The Task Force is of the view that operation of Part 2 of the Cash Basis IPSAS raises substantial issues of that go beyond mere housekeeping issues. These issues are considered more fully under the broad head of structural issues below.

### *4. The Task Force recommends that:*

- Part 1 of the Cash Basis IPSAS should be subject to a broad “house-keeping” review periodically to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual IPSASs.

***Availability of financial statements – timing.***

The Cash Basis IPSAS explains at paragraph 1.4.4:

*“The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity’s operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.”*

This is not an authoritative “black letter” standard but rather an acknowledgement that the usefulness of information erodes if it is not provided in a timely fashion. The Task Force appreciates the practical difficulties that will be experienced by some developing economies in attempting to comply with the six, or three, month issue period. However, the Task Force is of the view that this does not undermine the broad principle reflected in the commentary. It anticipates that this is why the IPSASB included its expectations of a desirable time frame for issue of financial statements as an encouragement, rather than a requirement of this IPSAS.

The Task Force is of the view that paragraph 1.4.4 sets an appropriate target period for issue of the financial statements, while still allowing entities to report compliance with the Cash Basis IPSAS if the 6 month period is not met. Given input provided to this review about the difficulty some jurisdictions face in issuing financial statements within six months of period end, the Task Force is of the view that the guidance in this paragraph should not be amended or re-expressed as a requirement.

***5. The Task Force recommends that:***

- The anticipated period for issue of the financial statements as explained in paragraph 1.4.14 should not be amended.

***Third party payments***

Task Force members are not convinced that the requirements to disclose information about third party settlements are well understood by those responsible for preparation of GPFRs in some jurisdictions. There was some input from respondents to the project questionnaire to this effect. Some Task Force members have also had the opportunity to discuss, and confirm, this directly with preparers and PFM experts in some jurisdictions.

The concern appears to be two fold as follows:

- First, the availability of the information necessary to comply on a timely basis. This was a matter that the IPSASB was aware of when finalizing the Cash Basis IPSAS – hence the qualifying condition at paragraph 1.3.24 that:  
*“Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.”*

The Task Force is of the view that this relief from the disclosure requirement is an appropriate response to a significant practical issue in many jurisdictions. The Task Force



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is of the view that any additional guidance/explanation the IPSASB may issue in respect of the Cash Basis IPSAS could usefully highlight/explain that this condition for disclosure responds to practical concerns.

- Secondly, the distinction between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures that are to be made about each. At issue appears to be the relationship between the following paragraphs:
  - Paragraph 1.3.24 requires disclosure of payments made by a third party to settle an obligation of an entity, or to purchase goods and services for its benefit, to be disclosed in a separate column on the face of the statement of cash receipts and payments.
  - Paragraph 2.1.90 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, and paragraph 1.10.21 requires that where an entity makes such disclosure it should also disclose in the notes the basis on which that value is determined.

The Task Force is of the view that there may well be an overlap between these requirements and recommends that the IPSASB clarify and simplify the relationship between them.

**6. The Task Force recommends that:**

- The IPSASB clarify the relationship between third party settlements and external assistance received in the form of goods and services, and the type and location of the disclosures to be made about each.

***External assistance – additional required disclosures***

Some respondents noted that the disclosure of additional details of the sources and use of external assistance funds currently encouraged in Part 2 of the Cash Basis IPSAS could usefully be included as required disclosures in Part 1. The Task Force is aware that the inclusion of requirements for such disclosures was raised during the extensive consultation undertaken by the IPSASB following the issue of ED 32 “Financial Reporting under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” (2006). The Task Force understands that the IPSASB was of the view that such proposals had merit. However, they had not previously been raised with the IPSASB or exposed for comment as part of the IPSASB’s due process. Consequently, they were included as encouraged, rather than required, disclosures.

The Task Force is of the view that, given this background, the IPSASB could usefully consider in any due process documents proposing revisions to the Cash Basis IPSAS whether certain of the encouraged disclosures about external assistance should be re-designated as required disclosures. This is particularly so if their inclusion as requirements in the Cash Basis IPSAS will support initiatives to harmonize the financial reporting requirements that are imposed on recipients by donor organizations.

However, the Task Force does not underestimate the complexity or sensitivities involved in processing this recommendation. For example, the encouraged disclosures are extensive and may

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be viewed as special purpose disclosures responding to the needs of only the donor community. Therefore, while usefully included as encouragements to be adopted as appropriate in particular jurisdictions as circumstances allow, it is not clear that all will readily translate to requirements.

**7. The Task Force recommends that:**

- Certain of the encouraged disclosures about the sources and uses of external assistance funds currently included in Part 2 of the Cash Basis IPSAS be considered for reclassification as required disclosures and included in Part 1 of the IPSAS.

***Service outcomes – additional required disclosures***

The IPSASB is currently addressing the scope of financial reporting as part of its Conceptual Framework project. Its work program also includes projects dealing with narrative reporting and reporting service performance under the accrual basis. Work undertaken as part of these projects may also have relevance for reporting of service outcomes under the cash basis of accounting. The Task Force is of the view that the implications of these projects for the Cash Basis IPSAS should be considered as they are developed, and that the IPSASB should not initiate a separate project to consider the reporting of service outcomes under the Cash Basis IPSAS.

**8. The Task Force recommends that:**

- The IPSASB consider the applicability for financial reporting under the Cash Basis IPSAS of any requirements or encouragements emerging from projects dealing with narrative reporting and reporting service performance during the development of those projects.

***Budget reporting in financial statements***

As noted above, a number of respondents advocated that the requirements for budget reporting be simplified and/or enhanced without providing details of the nature of that simplification or enhancement.

The requirements relating to budget reporting are a recent addition to the Cash Basis IPSAS. Exposure Draft ED 27 “Presentation of Budget Information in Financial Statements” was issued in late 2005. It dealt with financial reporting under both the cash and accrual bases and was well supported by respondents. Section 1.9 of Part 1, “Presentation of Budget Information in Financial Statements” was added to the IPSAS in 2006.

A review of the operations of the IPSASB undertaken during 2008 and 2009 at the request of the World Bank and IFAC<sup>4</sup> (the Wilkinson Report) recommended that the IPSASB keep under review IPSAS 24 “Presentation of Budget Information in Financial Statements” (which applies when the accrual basis of financial reporting is adopted) and commit to “review its effect in

<sup>4</sup> “Report on the Operations of The International Public Sector Accounting Standards Board” (April 2009) – see IPSASB meeting September 2009, Agenda item 1.5 The review was undertaken by Mr. H Wilkinson.

practice within a period of years”. The Task Force is of the view that, except for any revisions to the budget reporting section of the Cash Basis IPSAS that are necessary as a consequence of the adoption of other recommendations in this Report, the review of IPSAS 24 should also encompass the operation of the equivalent requirements in the Cash Basis IPSAS.

**9. The Task Force recommends that:**

- Subject to amendments that arise as a consequence of adoption of other of these Recommendations, the operation of the requirements of Section 1.9 of Part 1, of the Cash Basis IPSAS “Presentation of Budget Information in Financial Statements” be reviewed at the same time as the review of IPSAS 24 “Presentation of Budget Information in Financial Statements”.

***Financial instruments***

The Project Brief requires the Task Force to make recommendations to the IPSASB on whether the Cash Basis IPSAS should encourage or require any additional disclosures about financial instruments, and the nature of those disclosures.

The Cash Basis IPSAS currently encourages the note disclosure of assets and liabilities, and refers readers to certain accrual IPSASs for guidance about additional disclosures that may be made (see, for example, paragraphs 2.1.33 – 2.1.35). However, it does not specifically require or encourage the disclosure of financial assets and financial liabilities or refer readers to the accrual IPSASs dealing with financial instruments.

The Task Force has monitored the development of IPSASs based on IFRS 7 “Financial Instruments: Disclosure”; IAS 32 “Financial Instruments: Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement” (Final IPSASs based on these IFRSs have now been issued). During early 2009, the Task Force considered examples of required or encouraged disclosures that might be added to the Cash Basis IPSAS based on an initial draft of IPSAS ED 39.

The Task Force concluded that it would not recommend the inclusion of additional detailed required or encouraged disclosures about financial instruments in the Cash Basis IPSAS. It is concerned that to do so would present an additional impediment to adoption of the Cash Basis IPSAS – for example, it would significantly increase the size of the Cash Basis IPSAS, compounding existing concerns that it is already too long. The Task Force is also of the view that for many jurisdictions, the disclosure of information about liabilities and assets more broadly remains a priority – as such including extensive disclosure requirements about only financial instruments is not justified.

The Task Force acknowledges the benefit of encouraging those jurisdictions transitioning to the accrual basis to steadily build disclosures of assets and liabilities as prescribed in the accrual IPSASs, including financial assets and financial liabilities. However, it is not convinced that adding additional encouraged disclosures to Part 2 of the Cash Basis IPSAS is an appropriate or effective mechanism to achieve that objective. This matter is further developed below under the head of structural issues.

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The Task Force determined that during the second phase of the project it would seek the views from interviewees and those that participated in round-table discussions. As noted above, the opportunities for round-table and similar follow-up discussions were more limited than anticipated. In addition, discussions Task Force Members held directly with officers of ministries of finance and PFM experts focused on other issues. Consequently, the Task Force cannot confirm that there is strong constituent support for its view on this matter – however, it does note that respondents to the project questionnaire and those participating in round-table discussions and similar forums did not advocate the addition of requirements or encouragements on financial instruments that parallel those in the IFRSs or in IPSAS 15 “Financial Instruments – Disclosure and Presentation”<sup>5</sup>.

**10. The Task Force recommends that:**

- Additional detailed required or encouraged disclosures about financial instruments not be added to the Cash Basis IPSAS.

## STRUCTURE

The Cash Basis IPSAS comprises two parts and encompasses requirements, encouraged disclosures and extensive illustrations. This has resulted in a lengthy document – a total of 126 pages of the Handbook, with the encouraged disclosures in Part 2 comprising 54 pages. The inclusion of additional requirements or guidance will further increase its size.

Some respondents to the project questionnaire expressed concern about the structure of the Cash Basis IPSAS, including that it is too long and may be better reconstituted as a series of standards, and would be more user friendly if it included a checklist of requirements and/or a chart of accounts (see Appendix B – Figures 2, 5, 7). Similar observations were also made to Task Force members and staff in some follow up discussions.

While these concerns may not be seen as a major impediment to the adoption of the Cash Basis IPSAS, the Task Force is of the view that Part 2 adds unnecessarily to the length and complexity of the IPSAS. In addition, it may not be effective in achieving the objective intended. This is largely because the IPSASB has been steadily updating and expanding the accrual IPSASs – consequently, the encouraged disclosures that are intended to reflect the requirements in accrual IPSASs and support the transition to the accrual basis are, in some cases, quite out of date.

Responses to the project questionnaire, and the experience of Task Force members, reflect that many jurisdictions adopt a modified cash (or modified accrual) basis of accounting which merges and recognizes both cash and accrual data in the primary financial statements, rather than maintaining the distinction between the pure cash basis financial statements and the additional accrual disclosures as reflected in Part 2 of the Cash Basis IPSAS. Therefore, to continue to monitor and update the encouraged disclosures will consume considerable IPSASB resources with questionable return.

<sup>5</sup> IPSAS 28, “Financial Instruments: Presentation”; IPSAS 29, “Financial Instruments: Recognition and Measurement”; and IPSAS 30, “Financial Instruments: Disclosures” were not issued until January 2010 when the data collection phase of this review was substantially complete.

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Consequently, the Task Force encourages the Board to explore different mechanisms to support those wishing to enhance their cash basis GPFRs with disclosures that reflect some aspects of the accrual IPSASs. In this context, the Task Force is of the view that:

- Part 2 of the Cash Basis IPSAS should be deleted. Explanation in Part 2 dealing with such matters as “administered transactions” and “pass-through accounts” which directly support application of the cash basis requirements may well be relocated to Part 1 of the IPSAS;
- the IPSASB consider developing and making available on its website together with the Cash Basis IPSAS, a checklist of the disclosures required by the Cash Basis IPSAS; and
- the illustrative examples of additional encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in the cash (or modified cash) basis GPFRs be made available to interested parties through other mechanisms, including in subsequent updates of Study 14 if appropriate.

The Task Force is of the view that this will increase the accessibility of the Cash Basis IPSAS. It is also a more resource efficient mechanism for ensuring that those contemplating the inclusion of additional accrual type disclosures in cash basis GPFRs are responding to guidance derived from the appropriate accrual IPSASs.

The Task Force also notes that the Wilkinson Report (2009) recommends that steps the IPSASB might take to respond to the needs of developing nations could include issue of a simplified version of the requirements of the accrual IPSASs which:

*“...sets out the requirements of IPSASs in a simpler and more logical way, emphasizing the important issues and omitting the detail unlikely to be relevant to public sector entities or indeed governments. This could be similar to an SME document though not actually based on the IASB SME document.”*

The Task Force is of the view that should the Board activate such a project, its potential to also provide additional guidance on what currently are encouraged disclosures in Part 2 of the Cash Basis IPSAS should be explored.

**11. The Task Force recommends that:**

- Part 2 of the Cash Basis IPSAS be deleted. Explanation in Part 2 which directly supports the application of Part 1 should be relocated to Part I of the Cash Basis IPSAS and retained.
- The IPSASB consider developing and making available on its website a checklist of the disclosures required by the Cash Basis IPSAS.
- Illustrative examples of encouraged disclosures currently included as appendices to Part 2 of the Cash Basis IPSAS, together with a listing of the accrual IPSASs that could usefully be considered by jurisdictions intending to disclose additional information about assets, liabilities, revenue and expenses in the cash (or modified cash) basis GPFRs be made available through other mechanisms, including by their inclusion in Study 14.

## CAPACITY AND CAPABILITY ISSUES

The relative scarcity of appropriate human and other resources in developing economies and the need for additional training and financial and other support were identified as a significant implementation issue in a number of jurisdictions (see for example, Appendix B – Figure 3) . Wider consultation by the Task Force and the experiences of Task Force members confirms these as major impediments to adoption of the Cash Basis IPSAS (or the accrual IPSASs). The need for additional resources to support the implementation of financial management reforms and enhanced accountability in developing economies has also been well documented in studies undertaken by international organizations and others – with programs for technical and other support often initiated as a response.

The review of the PSC<sup>6</sup> undertaken in 2003/2004 considered the role that the PSC should have in supporting the implementation of the Cash Basis IPSAS. In its report to the IFAC Board (July 2004), the Review Panel recommended that resources “*beyond those necessary to review the operation of the cash based IPSAS and to consider the relevance of disclosures in newly adopted or revised accrual based IPSASs*” should not be allocated to updating or supporting the Cash Basis IPSAS over the medium term. The Panel also noted that assistance in implementation of the Cash Basis IPSAS was a broad issue that IFAC as a whole should consider more widely.

The Task Force agrees that the IPSASB should not be actively involved in capacity building in developing economies or providing “on-the-ground assistance” in implementation of the Cash Basis IPSAS. Such activities are better undertaken by other organizations – the IPSASB is not resourced to undertake such activities and already has a very demanding standards setting program.

The Wilkinson Report (2009) included an assessment of the contribution of developing countries to IPSASB activities. It noted that in addition to the issue and review of the Cash Basis IPSAS, establishing the appropriate leadership and liaison within the IFAC organization to address the education and training needs of developing nations will reinforce IFAC’s and the IPSASB’s response to the needs of developing economies. It also noted that the IPSASB had already initiated dialogue with the IFAC–DNC to this end.

The Task Force supports the initiatives of the IPSASB, the IFAC–DNC and other IFAC Boards and Committees to identify mechanisms to support education and training needs of developing economies. In this context, the Task Force notes that in many jurisdictions access to the internet and capacity to download and print documents is limited. It is of the view that the ability to provide “official” printed copies of the Cash Basis IPSAS (independently of the IPSASB Handbook and in English, French and Spanish as appropriate) to key members of the financial reporting community in developing economies would provide significant support to activities undertaken by IPSASB members and others to provide information about, and promote adoption of, the Cash Basis IPSAS.

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<sup>6</sup> The Review Panel was chaired by Sir Andrew Likierman, then Head of the United Kingdom Government Accountancy Service. Views on the Cash Basis IPSAS were only one of the matters considered by the Panel.

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The design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS, and common modifications to it, as well as to the needs of the donor community and those compiling government finance statistics has the potential to provide significant economies of scale to many developing economies. The Task Force encourages the IPSASB and other IFAC Boards and Committees as appropriate to support those international and national organizations working to harmonize governmental financial reporting requirements and the data systems that support them.

**12. The Task Force recommends that:**

- The IPSASB continues to explore with IFAC Boards and Committees as appropriate, mechanisms to support education and training needs of developing economies, particularly as they relate to the design and implementation of data collection systems able to respond to the requirements of the Cash Basis IPSAS and the needs of other key stakeholders.
- A supply of hard copies of English, French and Spanish translations of the revised Cash Basis IPSAS be printed and made available for distribution in developing economies.