

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: December 3–6, 2012

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

Objective(s) of Agenda Item

1. To hear a presentation from Jesse Hughes and ICGFM on their response to the IPSASB Task Force Recommendations for revisions to the Cash Basis IPSAS.

Material(s) Presented

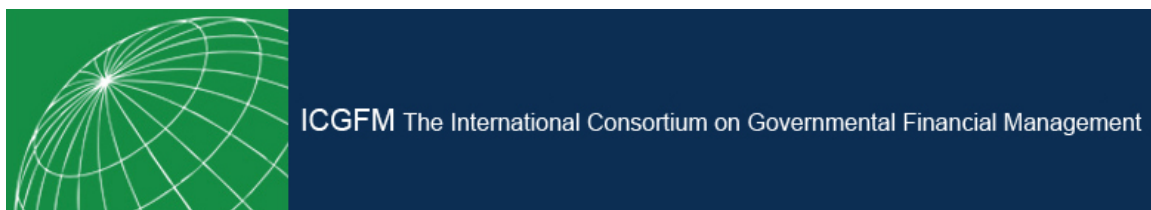
Agenda Item 6.1 ICGFM Response to Cash Basis Review

Action(s) Requested

2. The IPSASB is asked to consider the comments by the ICGFM and provide feedback and direction on the way forward.

Background

3. The IPSASB's Task Force to review the Cash Basis IPSAS made recommendations in 2010 for revising the Cash Basis IPSAS. Given staff resource constraints the IPSASB decided at that time that it would only progress work on the Cash Basis IPSAS if an external funding source for the project could be secured.
4. Various efforts have been made over the past eighteen months or so to raise awareness of the issues and secure external funding for this project. To date no funding has been secured and as a result the project has been on hold.
5. Jesse Hughes, a member of the IPSASB's Consultative Group, made a request of the IPSASB Chair to give a presentation at this meeting as Chair of the Accounting Standards Committee of the International Consortium on Governmental Financial Management (ICGFM) to outline their views on the Task Force's recommendations.
6. Included with these agenda materials is the ICGFM response to the Task Force's recommendations which will serve as a basis for the presentation.



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November 9, 2012

Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the IPSAS Task Force Recommendations (2010) for a revision to the Cash Basis IPSAS. We are pleased to see the IPSASB address this critical area as many developing countries and countries in transition attempt to improve their cash reporting policies and procedures.

Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to the recommendations from the Cash Review Task Force is one from an international perspective.

On behalf of ICGFM, we agree that the ultimate objective is for all governments to report on the accrual basis of accounting if they are to achieve fiscal sustainability. Thus, it is expected under the accrual basis of accounting the total costs of government services will be identified during the period when the services are provided rather than when the cash is paid (interperiod equity concept). Consequently, the taxes to be assessed should be sufficient to cover the costs of services provided. In this manner, these costs would not be passed on to future generations.

However, most countries around the world will have extreme difficulty in achieving that objective in the near or medium term. We encourage the IPSASB to concentrate their efforts on establishing a Cash Reporting standard rather than attempting to identify standards for the Cash, Modified Cash, or Modified Accrual basis of accounting. Part 1 of the Cash Basis IPSAS (we would encourage that it be retitled the Cash Reporting IPSAS) does a reasonably good job of achieving that objective and Part 2 serves as a good option to help those countries that have the capacity to move toward an accrual basis of accounting. However, we do have the following specific concerns with the current Part 1:

1. Our primary objection to Part 1 is the requirement that all cash received and paid be consolidated into a whole of government report. Rather, we believe that there should be three separate consolidated Cash Receipts and Payments Statements: one for budgetary entities, another for GBEs, and a third for all other controlled entities. Thus, each country could concentrate their efforts on each category as resources are available to accurately account for cash received and paid by each category of controlled entity. If a whole of government consolidated cash report is desired, it could be included as an option in Part 2.
2. A secondary objection to Part 1 is the requirement to report payments by third parties. Many countries do not collect this information and the information received from donors is not always timely, appropriately classified and reliable. It is valuable information and could be optionally reported in Part 2 as the procedures are established to reliably collect this information. Thus, it could be reported as an optional schedule to each of their three Consolidated Cash Receipts and Payments Statement, if desired.

We believe that these changes would go a long way toward making Part 1 of the Cash Reporting IPSAS more practical to the many countries throughout the world that are struggling to adopt these standards. We recommend that the IPSASB produce a standard that reflects and advances existing practices in reporting cash transactions and balances. The revised Cash Reporting IPSAS should provide a practical, medium term aspiration for full adoption (of at least Part 1) by most countries which are not currently involved in adopting the accrual basis of accounting.

The revised standard will be just as unattainable as the existing standard unless consolidation requirements are redefined under IPSAS 6. Consolidation of an entity should NOT be required unless the incremental benefits of doing so outweigh the incremental costs, as judged by each national standard-setting body. This will make the standard both practicable and more relevant to local information needs; otherwise the cash reporting standard will not be a practical medium term aspiration.

Our thoughts on the 2010 Task Force recommendations are as follows:

1. The Task Force recommends that:

- a. The Cash Basis IPSAS should be retained, subject to modifications and restructuring as proposed in other recommendations in this Report. **Response.** Agree, although we prefer that the

revised IPSAS be retitled (i.e. “Cash Reporting IPSAS”) since few countries adhere to the Cash Basis of accounting.

b. 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) **Response**. Agree.

2. The Task Force recommends that:

a. An IPSAS dealing with the modified cash or modified accrual basis should not be developed. **Response**. Agree, subject to progress being made with part b below.

b. 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) **Response**. Agree.

3. Task Force recommends that:

a. 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. **Response**. Agree, except consolidation should be included in Part 2 as an option. Part 1 of the revised Standard should *not* require consolidation of all controlled entities.

b. 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. **Response**. Agree, except we would require separate consolidated reports for budgetary entities, GBEs, and all other controlled entities (in three separate reports). As above, Part 1 on the revised standard should not require consolidated financial statements for the whole of government.

c. 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) **Response**. Disagree. The timing and period required to meet a new standard is country-specific and highly variable.

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 IPSAS. (Page 23) **Response**. Agree, more research should be undertaken to identify existing good practice which could then be incorporated in the revised standard periodically.

5. The Task Force recommends that:

The anticipated period for issue of the financial statements as explained in paragraph 1.4.4 should not be amended. (Page 24) **Response**. Agree.

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) **Response.** Agree, except we would emphasize that disclosures on each category be included in the optional Part 2. Governments should first be required to account for the cash they manage (Part 1) before having to account for third party settlements or aid in kind (Part 2).

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) **Response.** Disagree, since we believe that all references to sources and uses of external assistance funds should be reported in the optional Part 2. This should provide assurance to the governments concerned so they can see the amount of aid they have provided in the financial statements of the recipient government's accounts.

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) **Response.** Agree with including narrative reporting in required Part 1 (especially, for example, explanations for significant variances between the budgeted and actual amounts) and service performance in optional Part 2.

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) **Response.** Agree.

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) **Response.** Agree, except we believe that details of government debt and a Schedule of Long-Term Debt should be required disclosures in Part 1.

11. The Task Force recommends that:

a. 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. **Response.** Disagree. Part 2 should be retained since it helps countries to transition to the accrual IPSAS if they so desire. Plus it is easier for developing countries to translate an IPSAS than to get supplemental material (i.e. Study 14) translated.

b. The IPSASB consider developing and making available on its website a checklist of the disclosures required by the Cash Basis IPSAS. **Response.** Agree, but it should be developed as

part of the revised standard.

c. 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 GPFRs be made available through other mechanisms, including by their inclusion in Study 14. (Page 29) **Response.** Disagree, since we believe that the optional Part 2 should be retained. Plus, to our knowledge, few developing countries translate Study 14 since they are not prepared to transition to the accrual IPSAS.

12. The Task Force recommends that:

a. 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. **Response.** Agree especially pertaining to the coding structure for the statistical reports (titled Balance Sheet, Income Statement, Statement of Cash Flows, and Statement of Other Volume Changes) reflected in the Government Finance Statistics Manual (2001) published by the IMF.

b. 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) **Response.** Agree, but these should also be made available in industrial countries that have not yet adopted the accrual IPSAS.

We appreciate the opportunity to comment on the Task Force Recommendations. If you have questions, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,



ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

Anthony Bennett

Maru Tjihumino

Michael Parry

Andrew Wynne

Cc: Linda Fealing
President, ICGFM