



**The Japanese Institute of
Certified Public Accountants**

4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan

Phone: 81-3-3515-1130 Fax: 81-3-5226-3356

E-mail: international@jicpa.or.jp

http://www.jicpa.or.jp/n_eng

June 15, 2005

The Technical Director

International Public Sector Accounting Standards Board

545 Fifth Avenue, 14th Floor

New York, NY 10017 USA

**Comments on the Proposed International Public Sector Accounting Standard,
“Disclosure Requirements for Recipients of External Assistance”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard, “Disclosure Requirements for Recipients of External Assistance,” (the “Proposed Standard”) as follows:

Overall Opinion

We are supportive of this proposed standard. Clear disclosure requirements about external assistance will contribute to the improvement of financial management for recipient countries. Donor agencies are expected to accept disclosures prescribed in an IPSAS to be developed based on this Exposure Draft, and to provide necessary information to recipient countries.

“Specific Matters for Comments”

1. Whether the proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.

We believe the definition of “external assistance” is sufficient to encompass all official resources.

14.3-27

2. Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should also be included in the definition of “external assistance.” Currently, the Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 5 would exclude certain assistance received from NGOs.

We believe that assistance from other resources such as NGOs or private companies should not be included in the definition of “external assistance” in this proposed standard. We understand that an objective of disclosure of external assistance is to clarify the resources of a public-sector entity by its disclosure of assistance received from foreign countries based on agreements between governments. In light of this objective, there is less of a need to enforce a public-sector entity to disclose assistance from other than official recourses.

However, when an official agency provides assistance through an engagement with an NGO to implement a project, the resource is of an official origin; therefore, the assistance falls into the scope of this proposed standard. We believe that such assistance is usually required to be disclosed in notes as an “in-kind service.” This standard needs to include guidance to clarify this situation. We include our proposed wording in, “Other Comments 2.”

3. Whether the Exposure Draft should specify the categories of external assistance as required in paragraphs 13-15 or only require the disclosure of external assistance by “major classes” without further specification.

We oppose the portion of this Exposure Draft that specifies the categories of external assistance. The standard should require disclosure of external assistance by “major classes,” with illustrative examples of categories that are included in the Exposure Draft. Some external assistance is hard to distinguish, for example, between Development Assistance and Balance of Payment Assistance, and between Development Assistance and Emergency Assistance. In addition, the continuous changes in nature and type of assistance make it difficult to specify categories of disclosure. Our proposed wording for paragraph 13 is as follows:

(a similar amendment is necessary in paragraph 14)

13. **The entity shall disclose separately, either on the face of the Statement of Cash Receipts and Payments, or in the notes to the financial statements, the total external assistance**

14.3-27

received in cash during the period, by major categories, showing separately. Examples of major categories are:

- (a) Development Assistance;
- (b) Trade Finance;
- (c) Emergency Assistance;
- (d) Military Assistance;
- (e) Balance of Payments Assistance; and
- (f) Other Assistance.

4. The proposal to disclose the balance of, and changes in, undrawn external assistance during the period (paragraph 22).

We believe that the disclosure requirement of change in undrawn external assistance is excessive. We propose that the standard require the disclosure of the balance of undrawn external assistance only, and to encourage disclosure of the change. In addition, we believe that the proposal in paragraph 25 that requires an entity to apply the exchange rate of each applicable “transaction” is inappropriate and that the translation of the disclosed amount is to be determined by applying the exchange rate of the balance-sheet date which would provide more useful information. IPSASB needs to consider that “transactions” such as an approval or cancellation of assistance are not accompanied by any actual cash flow. Further, we think that the disclosure of such comparative figures is less necessary and that the disclosure of the latest year-end information is enough, although note 2 of Appendix 1 of this Exposure Draft illustrates two period disclosures. Our proposed wording is as follows:

The order of paragraphs 22 and 23 is to be replaced. The wording could be amended as follows:

23. The entity shall disclose separately in the notes to the financial statements the total undrawn external assistance as of the latest balance sheet date, by major source(s), by loan or grant and the currency or currencies in which the external assistance is denominated.

22. The entity ~~shall~~ is encouraged to disclose separately in the notes to the financial statements, in addition to disclosure required in paragraph xx, the opening balance of undrawn external assistance, changes during the period and the closing balance available to fund ~~future operations~~, by major source(s), by loan or grant, showing separately:

14.3-27

- ~~(a) Total external assistance loans and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:~~
- ~~(i) the opening balance of undrawn loans, including partially undrawn loans;~~
 - ~~(ii) the amount of new loans approved or otherwise made available during the period;~~
 - ~~(iii) the total amount drawn or utilized during the period;~~
 - ~~(iv) the total amount cancelled during the period;~~
 - ~~(v) total foreign exchange adjustments; and~~
 - ~~(vi) the closing balance of undrawn loans.~~
- ~~(b) Total external assistance grants and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:~~
- ~~(i) the opening balance of undrawn grants, including partially undrawn grants;~~
 - ~~(ii) the amount of new grants approved or otherwise made available during the period;~~
 - ~~(iii) the total amount drawn or utilized during the period;~~
 - ~~(iv) the total amount cancelled during the period;~~
 - ~~(v) total foreign exchange adjustments; and~~
 - ~~(vi) the closing balance of undrawn grants.~~

In preparing the above disclosed information, external assistance denominated in foreign currencies are to be translated into the reporting currency of the entity by applying exchange rate of the balance-sheet date to all items including any changes during the period.

Paragraph 25 needs to be deleted. Prior-year disclosure of note 2 of Appendix 1 needs to be deleted.

5. The proposal to disclose the terms and conditions of external assistance agreements as required by paragraphs 26-28 and any non-compliance thereof (paragraph 36).

We support the proposal in the Exposure Draft, in principle. We suggest that the standard clarifies that it does not require the disclosure of military and/or diplomatic secrets as terms and conditions associated with external assistance. Our proposed wording is as follows:

Proposed addition of a paragraph immediately to follow paragraph 32:

“Terms and conditions associated with external assistance may include diplomatic and military

14.3-27

secrets. Thus, IPSAS does not require the disclosure of diplomatic and military secrets. In this case, a recipient discloses the fact that a term or a condition is associated with external assistance and that the recipient cannot disclose the details because such details are a diplomatic or military secret included in the note to the financial statement.”

6. Whether the proposals in paragraph 44 as noted below are appropriate:

- (a) To disclose the fair value of non-cash goods-in-kind; and
- (b) That fair value should be based on the prices of equivalent goods or services in the recipient country.

We support disclosure requirements of “in-kind” assistance. We also support, in principle that such disclosures are based on fair value, and that fair value is primarily determined by worth in the recipient’s economy. However, the requirement of use of fair value in the world market or in the donor’s economy when fair value in the economy of the recipient is not determinable would impose an excessive burden on the recipient, as a preparer of financial statements. The proposed standard should allow a preparer of financial statements to use prices that the preparer believes to be appropriate when fair value in the economy of the recipient is not determinable. In addition, the basis of the calculation should be disclosed. Our proposed wording is as follows:

Amendments for paragraph 44: (In addition, paragraph 49 would be amended as such.)

44. The entity shall disclose separately in the notes to the financial statements the fair value of goods or services received in-kind measured in the economy of the recipient as of the date of receipt. Where fair value in the economy of the recipient is not determinable, appropriate price such as prices of similar goods or services in the recipient country, or fair value in the world market or shall be used. Where goods are not traded internationally, fair value in the donor’s economy shall be used. Then the entity discloses what kind of prices is used to determine the disclosed amounts.

7. Whether the disclosures proposed are appropriate. If the disclosures are considered excessive, the IPSASB would welcome input on which disclosures should not be required. The IPSASB would also welcome input on any key disclosures that have not been dealt with and should be required.

14.3-27

We think that the disclosure requirements in the Exposure Draft are unnecessarily excessive, in general. Our specific proposals are described from 4 to 6 above. The IPSASB needs to consider the further simplification of disclosure requirements based on comments from preparers and external assistance agencies.

8. Whether the proposal in paragraph 54:

- (a) For a transition period of two years is sufficient to apply this Standard. Is a longer transitional period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?
- (b) To exempt the requirement to disclose comparative figures during the first year of application of this Standard is appropriate.

We think that the proposals in the Exposure Draft are appropriate. However, we would not oppose further IPSASB amendments of the proposals based on comments from preparers of financial statements of recipient countries who comply with this proposed standard.

Other Comments

1. When an entity who received in-kind goods sells the received goods, revenue from the sale is included in the Statement of Cash Receipt and Payments. On the other hand, received in-kind goods are disclosed separately in the note to the financial statements. As a result, both in-kind assistance and cash receipt from the sale are disclosed. In order to avoid misleading the readers of the financial statements, we think that the disclosure of received in-kind goods also includes a statement reading “A cash receipt of the sale of goods amounting to xxx is included in the Statement of Cash and Payments.” Our proposed wording is as follows:

Addition of a paragraph following paragraph 49.

“When an entity who received in-kind goods sells the received goods, revenue from the sale is included in the Statement of Cash Receipt and Payments. On the other hand, received in-kind goods are disclosed separately in the note to the financial statements. As a result, both in-kind assistance and the cash receipt from the sale are disclosed. In order to avoid misleading the readers of the financial statements, when the situation above exists, disclosure of the received in-kind goods also includes a statement reading, “A cash receipt of the sale of goods amounting to xxx is included in the Statement of Cash and Payments.”

14.3-27

2. We propose that paragraph 10 indicate the fact that in-kind goods or services are one of the major forms of external assistance. Our proposed wording is as follows:

Add (d) after (c) of paragraph 10. Amend the sentence thereafter as follows:

(d) Supply with goods or services in-kind that the external assistance agency directly procures.

Payments to a third party may include payments to an NGO settling in cash an obligation of the entity for goods or services provided to or to be provided by the NGO. ~~External assistance agreements may also include provision of goods or services in-kind.~~ When an external-assistance agency provides an NGO with funds to supply an entity with goods or services, such assistance is included as in-kind assistance provided, as in the case that the external-assistance agency engages with a private enterprise.

3. A definition of Non-Government Organizations is not necessary because this proposed standard excludes their assistance from the scope of the standards. We think that this definition is not necessary.

Sincerely,

Yoshihiro Wada
Executive Board Member
Chair of the Public Sector Committee
The Japanese Institute of Certified Public Accountants

14.3-28

The Republic of Uganda
Ministry of Finance, Planning and Economic Development
Accountant General's Office

Comments on Exposure Draft 24 – Proposed Public Sector Accounting Standard Financial Reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance

Introduction

We are grateful to the International Public Sector Accounting Standards Board for giving us the opportunity to comment on Exposure Draft 24. We are aware that the deadline for submission of comments was 15 June 2005. However, Mr Paul Sutcliffe, Technical Director of IPSASB allowed us to comment by 18 July, and for this we are grateful.

We are in the process of implementing IPSAS and as such interested in developments in this area. Consequently, we are pleased to make comments amid constraints of competing work schedules.

We note that this ED provides additional reporting requirements for entities reporting under the cash basis of accounting and will be used together with the Cash IPSAS.

General

We are in support of the Exposure Draft in general because it handles a pertinent area for developing countries because of the amounts of external assistance received. We note that the standard does not apply to the donors (providers of the external assistance), but it is noted that the Standard has been developed in response to a request by the OECD Development Assistance Committee and the Multilateral Development Banks' Financial Harmonization Working Group (BC5, page 49). Consequently, we hope that the donors will also use the Standard and help provide the information required for disclosure in accordance with the Standard.

We note that the ED is not clear as to whether the disclosure requirements are all mandatory or not (or does it relate to part of Part 2 of the CASH BASIS IPSAS). We would suggest that some of the disclosures are left to be discretionary given the effort required to get information, politics, and government disclosure regulations e.g. for classified expenditure. We have highlighted provisions which should be discretionary (see specific comments below).

On the other hand, we note that this standard is an extension of the Cash Basis IPSAS (some of the provisions therein are also in the Cash Basis IPSAS). It could be said that most countries following this standard would wish to go accrual and use the full range of IPSAS but are help back by the complexity of the accrual accounting. Consequently, it might be reasonable to incorporate this exposure draft into the Cash Basis IPSAS as an amendment – Justification: it is an expansion of the Cash Basis IPSAS and should keep all provisions together and simple to ensure adoption and compliance.

Specific Matters for Comment

You particularly requested for comments on the following:

1. *Whether the proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.*

- (a) The definition of external assistance in paragraph 5 appears to be reasonable. We suggest that a definition for the donor agencies be included. This would complement the definition of “Bilateral External Assistance Agencies” on page 8 because not all donors have to be established as donors as such. **Define Development Partners as “bilateral or multilateral or other organization/agency involved in provision of development assistance to an entity”**
- (b) Definition of NGO (page 8) – specifying of purpose of NGO to providing assistance to government(s), government agencies or individuals is too restrictive. Some NGOs provide support to groups rather than government or individuals. Could add to the definition **“or organizations whose activities complement those of the government to provide for the welfare of the people”**.
- (c) Definition of Official Resources (page 8) – the last phrase, “at their own risk and responsibility” is not clear and might even suggest that these agencies take some risk after provision of the assistance so that for example if the money is used to construct a bridge and it collapses, the donor is responsible. Could rephrase this to: **“to be available for use to meet the entity’s objectives”**. Please also note that some of the assistance goes directly to the target activities or individuals e.g. emergency relief supplied directly to an emergency area. It should also be noted that some of the assistance is not by official agreement, but this would obviously be difficult to account for, but where information is available, disclosure (discretionary) would be good. Definition of Official Resources should also be extended to **bilateral agencies**.
- (d) Re-lent (page 9) – could be changed to “on-lent”

2. *Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should be included in the definition of “external assistance”. Currently the Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 5 would exclude certain assistance received from NGOs.*

This provision appears to be reasonable, but might leave out significant resources received from NGOs. NGOs provide a lot of assistance to various public sector entities and should be reported upon, to the extent possible. We suggest that resources from NGOs be reported on as discretionary disclosure.

3. *Whether the Exposure Draft should specify the categories of external assistance as required in paragraphs 13-15 or only require the disclosure of external assistance by “major classes” without further specification.*

Paragraphs 13-15 are noted, but we should be conscious of the difficulty of obtaining information on military assistance. The proposed standard should note the particular challenges of accounting for emergency assistance especially when this is made in-kind or to third parties. This would make life difficult if it is

14.3-28

mandatory disclosure. Propose that disclosure of military, and emergency assistance should be discretionary.

With regard to paragraph 15, we agree that where external assistance is received from more than one provider then this should be analysed by each provider. In addition, the notes to the financial statements should provide details of the assistance in the currency in which it was provided. This would allow each provider to identify the total assistance which they have provided in the audited financial statements of the entity.

But, in general, users (especially the general public) are interested in not only the source of the assistance but also the use of the proceeds. Disclosure of the assistance by category would, therefore, help identify the purpose of the resources and therefore facilitate follow up action. It is also possible that there is other assistance outside the named categories and its disclosure should be facilitated.

4. *The proposal to disclose the balance of, and changes in, undrawn external assistance during the period (paragraph 22).*

Paragraph 22 is ok, but could add “any other assistance” to the list of assistance (enumerated) to ensure that all assistance is captured. Thus any other assistance will then be reported as “other”.

5. *The proposal to disclose the terms and conditions of external assistance agreements as required by paragraphs 26-28 and any non-compliance thereof (paragraph 36).*

Provisions of paragraph 28 appear to be included in paragraphs 26-27. Need to cross-check. It should be noted, however, that some agreements might have confidentiality/non-disclosure clauses. Any move to disclose should bear in mind the impact of disclosure on the sovereignty of the entity where such disclosure might lead the population might perceive policies to be externally driven. This comment applies to paragraphs 32 and 36 as well.

Therefore, this disclosure should not be mandatory and the entity should be given discretion to assess the desirability of making the disclosures.

On the other hand, terms and conditions that determine or affect access to external assistance are often so detailed, so are the terms and conditions that limit use of such funds. Therefore reporting does not have to include all the terms, but there could be emphasis on reporting by exception to focus on breach of terms and conditions rather than the terms and conditions per se.

The above notwithstanding, there are terms and condition that may result into a liability when breached i.e. the provider requires that where certain terms and conditions are breached, the amount already disbursed shall become immediately claimable. In such a case, there is a liability looming. Such contingent liabilities should be disclosed as provided for by the Public Sector Accounting Standards and paragraph 36 of the exposure draft

14.3-28

6. *Whether the proposals in paragraph 44 as noted below are appropriate:*
- (a) *To disclose the fair value of non-cash goods-in-kind; and*
 - (b) *That fair value should be based on the prices of equivalent goods or services in the recipient country.*

Paragraph 44 should not be mandatory because of difficulty of obtaining information from the providers of assistance, but should be left for discretionary disclosure as part of good practice. There is also an issue with valuation of some of the assistance, and it might be costly to undertake the valuation – in some cases, the cost of valuation might even exceed the value of the asset/assistance.

On the other hand, it might be difficult to get a record of assistance in case of emergencies due to focus on addressing the emergency (see also comments on item 3 above).

Using “fair value” as stated in the last sentences of paragraphs 46 and 47 is reasonable, but subject to the reservations above on cost and practicality.

7. *Whether the disclosures proposed are appropriate. If the disclosures are considered excessive, the IPSASB would welcome input on which disclosures should not be required. The IPSASB would also welcome input on any key disclosures that have not been dealt with and should be required.*

Refer to the comments on the specific paragraphs and classify as mandatory or discretionary as appropriate.

8. *Whether the proposal in paragraph 54:*
- (a) *For a transition period of two years is sufficient to apply this Standard. Is a longer transitional period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?*
 - (b) *To exempt the requirement to disclose comparative figures during the first year of application of this Standard.*

The transitional provisions are noted, but a transitional period of three (3) years might be better.

Other Comments

1. Page 12, 13(d) – disclosure of Military Assistance might be difficult due to problems with obtaining information because of the secretive nature of military records. For example some of the transactions of the military are confidential (classified) and reports on them are made directly to Parliament. Consequently, this disclosure might be difficult to achieve and at best could be discretionary.
2. The main text of paragraph 14 could read **“the entity shall disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid payments made by third parties on behalf of the entity during the period to ~~directly~~ settle obligations of the entity showing in separate columns: ...”**.
3. Paragraph 18 – is very good. Could add an explanatory note on NGOs because their activities/objectives are diverse yet the entity could disclose some of the NGO participation in the nation to the extent possible.

14.3-28

4. Paragraph 33 – how about guarantees made by the entity (similar to re-lent loans?). This might be necessary to show the extent of contingent liabilities.
5. Paragraph 50 – should come before paragraph 44 in order to keep the flow and perspective. We note that it is necessary for an entity to disclose separately (in the notes to the financial statements) the amount of external assistance debt rescheduled or cancelled, but it might be laborious to comply with the additional requirement to disclose the terms and conditions associated with the restructuring of the entity’s debt. Consequently, we suggest that this be left to discretionary disclosure.
6. Paragraph 51 – check the typo in line 4 and insert “or” after “rescheduled”