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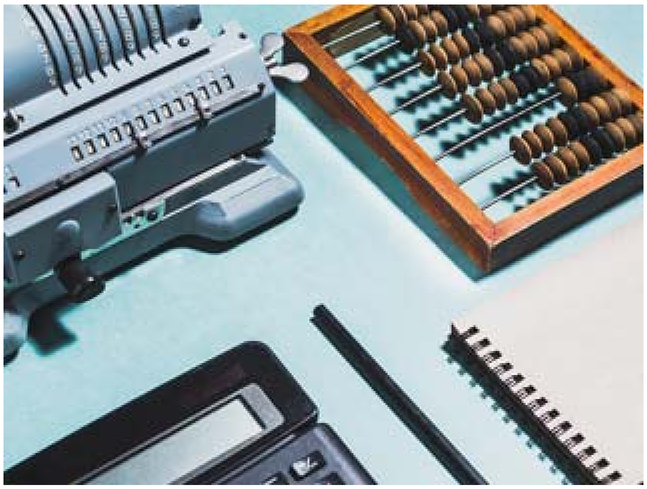
New Cash Basis IPSAS



Posted by Guohua Huang[1]

Recently, the International Public Sector Accounting Standard Board (IPSASB) published its revised Cash Basis IPSAS—*Financial Reporting under the Cash Basis of Accounting*—thus replacing the standard first published in 2003 and modified in 2006 and 2007. It is not a high-profile accounting standard compared to the other accrual basis standards. But many organizations, including the IMF, have already been assisting some developing countries, especially those with limited PFM capabilities, to implement the Cash Basis IPSAS, as a stepping stone to possible future implementation of the accrual basis standards. A robust government accounting system, which produces timely, accurate, consistent, and comprehensive financial reports on a cash basis, can dramatically improve these countries' fiscal transparency and accountabilities. This international standard is therefore an important instrument in enhancing the quality of financial reports of low-income countries.

The main purpose of this revision is to remove some significant barriers to the adoption of Cash Basis IPSAS. So far, very few countries have fully adopted the standard. Two main challenges have been experienced: first, in the preparation of consolidated financial statements; and, second, in the disclosure of information about external assistance and third-party payments.

The previous cash basis standard required that the financial statements of all "controlled entities", such as subsidiary agencies of ministries and state-owned enterprises, should be consolidated by their controlling entity. Many of these enterprises, however, are established as companies, and already report on an accrual basis. It may be burdensome therefore for the government to adjust the financial statements of state-owned enterprises to a cash basis before they can be consolidated. Difficulties in applying the control criteria in a low-capacity environment can also make the consolidation process challenging.

The revised standard does not require countries to carry out this consolidation any more, although it encourages them to do so. The standard also encourages governments to present a consolidated financial statement for the budget sector, the general government sector[2], and other entities that represent core government activities. Such information is highly relevant for fiscal transparency and efficient budget management, and for assessing the impact of the government's fiscal policies and liquidity position on the rest of the economy.

The second important change is to recast the previous requirement for disclosing information about external assistance and third-party payments[3] as a voluntary disclosure which is nevertheless encouraged. Some governments have complained about the onerousness of acquiring the mandatory information on third party payments, and disclosing details of external assistance, some of which is not even required in accrual IPSAS. Nonetheless, external assistance received in cash still needs to be recognized in the financial statements.

In addition to addressing these barriers to the adoption of the Cash Basis IPSAS, the IPSASB has also recognized its role in supporting governments in their transition to accrual IPSAS. Indeed, the new standard notes that "the Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS". It also strongly encourages countries to collect and disclose information that is not recognized in cash accounting. Such information includes receivables, payables, borrowings, non-cash assets, and accruing revenues and expenses. Some countries implementing the Cash Basis IPSAS may need significant time, resources and technical support to build up their capacities to collect these data on a timely and reliable basis. After that, they should be well prepared to move ahead with the adoption of accrual IPSAS.

[1] Senior Economist, Fiscal Affairs Department, IMF.

[2] Comprising the central government, state or regional governments, local governments, and social security funds.

[3] Third party payments refer to purchases of goods or services on behalf of a government entity, or the settlement of obligations of the entity, when the money is paid directly to the suppliers.