

IPSASB Exposure Draft

Financial Statement Discussion and Analysis

response to exposure draft

31 July 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Submitted electronically

Dear Stephenie Fox

IPSASB Exposure Draft Financial Statement Discussion and Analysis

CIPFA is pleased to present its comments on this exposure draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comments

As noted in successive CIPFA responses on this topic and others

- CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs.
- CIPFA agrees that it is important to broaden the developing Conceptual Framework to cover matters which go beyond a focus on financial statements.

We would like to strongly reiterate and reinforce CIPFA's support for the aspirations of this project and other related projects.

General comments

This exposure draft, *Financial Discussion and Analysis* is one of a number of initiatives which relate to reporting that goes wider than financial statements, including recent consultations on *Reporting Service Performance Information*, and *Reporting on the Long Term Sustainability of a Public Sector Entity's Finances*. The main counterpart of these types of reporting for the private sector is *Management Commentary* on which the International Accounting Standards Board (IASB) issued a non-mandatory Practice Statement in December 2010. The IASB recognises that, even in the context of for-profit reporting where profit measures provide a more uniform basis for assessing and comparing the performance of reporting entities, a more complete and useful view of performance and position can be provided through narrative and analytical commentary, reflecting the perspective of those determining the objectives of the entity and directing its activities.

CIPFA recognises that *Management Commentary* does not fully parallel the wider reporting being considered by the IPSASB Board, and that for example *Long Term Sustainability* is a rather different kind of reporting to even more complicated aspects of going concern. We also recognise that reporting on service performance information provides additional benefit to public sector entities which do not obtain useful information by reporting on profit, and that for this reason more developed guidance on such reporting would be helpful.

As we explained in our recent response to the Consultation Paper *Reporting Service Performance Information* we would only support mandatory standards on issues which are material and significant for all entities, or where a standard can be drafted to allow proportionate application or exemption where the cost of reporting exceeds the benefit.

We note that this paper has been developed from a project on *Narrative Reporting* which might be considered, like *Management Commentary*, to range more widely than explaining matters presented in an entity's financial statements. While we can see that narrowing the scope of reporting may reduce the focus of the project to one for which mandatory guidance may be more practical, we have some concerns that this does not result in the best outcome.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out in Annex A.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely
Paul Mason
Assistant Director

ANNEX A

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out below

Specific Matter for Comment 1

Do you agree that the material presented in this Exposure Draft should be developed as an IPSAS, with the same level of authority as the accrual based IPSASs, which applies to all entities that prepare financial statements in accordance with IPSASs?

No. In CIPFA's view the scope and nature of the information which would be most helpful in providing a coherent and helpful reporting package is quite difficult to define, and identifying a 'minimum subset' for mandatory reporting may not produce the best result.

The Basis for Conclusions explains the IPSASB view that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs, and per BC8 *The IPSASB considers that in all cases, the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity.*

We would note that much of the material in the Implementation Guidance example does not appear to be information which is used in the preparation of financial statements per BC8. For example, the analysis of GDP by production group provides very appropriate contextual information which is relevant both to entity objectives and to the capacity of the entity to generate taxation revenue, but is information from GFS and other economic/statistical reporting, rather than arising as part of the government financial reporting process. We would agree that in general it would be useful to produce this information in order to plan government activity. However, both in this particular example and more generally, especially for reporting by entities below whole of government level, the information required to provide effective explanation and commentary may require a greater Public Financial Management capacity than anticipated by the Board. CIPFA strongly supports the desire for such increased capacity and is working with other stakeholders in the international development community to promote and support improved PFM, but we see it as a different issue to the baseline capacity for the production of worthwhile accruals based financial statements.

Furthermore, we also have some concerns that the narrow emphasis of the ED might stifle reporting on wider matters, particularly inasmuch as they might not be deemed appropriate for inclusion in the FSD&A document.

Specific Matter for Comment 2

Do you agree that IPSAS 1 should be amended to clearly indicate that financial statement discussion and analysis is not a component of the financial statements?

CIPFA agrees with this amendment.

Specific Matter for Comment 3

Is the scope of financial statement discussion and analysis clearly defined so as to distinguish it from other issues being addressed by the IPSASB (e.g., financial statements, service performance reporting, reporting on the long-term sustainability of public finances)?

There will generally be linkages between the various components of wider financial reporting, and a precise and objective separation may not be possible. However, the draft IPSAS provides a workable basis under which preparers should be able to develop sensible and useful reporting.

Specific Matter for Comment 4

Is the required content for financial statement discussion and analysis appropriate?

Subject to our response to SMfC 1, CIPFA agrees that the required content is appropriate?

Specific Matter for Comment 5

Do you agree with the transitional provisions?

Subject to our response to SMfC 1, CIPFA agrees with the timing of the transitional provisions. However, we believe that the transitional provisions have been misdrafted to imply that IPSAS 24 must always be followed. Paragraph 35 should be redrafted to apply only when the entity is required to or has chosen to follow IPSAS 24.

Specific Matter for Comment 6

Is the Implementation Guidance useful to understanding the requirements of the proposed IPSAS?

Yes

Specific Matter for Comment 7

Is the Illustrative Example a useful way of illustrating the requirements of the proposed IPSAS?

Yes