



Australian Government

Department of Finance and Deregulation

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

Dear Ms Fox,

Exposure Draft 47- *Financial Statement Discussion and Analysis*

The Australian Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft 47: *Financial Statement Discussion and Analysis* (the Exposure Draft).

Finance has contributed to the Australian Heads of Treasuries Accounting and Reporting Advisory Committee's (HoTARAC's) submissions on the Exposure Draft. However, Finance believes it is appropriate to submit its own response to highlight where Finance's views diverge from those of HoTARAC or the issue is deemed to be significant for IPSASB's consideration.

Finance commends the IPSASB's efforts in developing a principles based pronouncement for this type of report. Finance is generally supportive of the proposals and their development as a standard. Finance also believes the proposals are important in bringing a degree of objectivity to commentary that is included with financial statements. However, Finance recommends the IPSASB provide further justification for not amending the International Accounting Standards Board's International Financial Reporting Standard Practice Statement *Management Commentary*. As per IPSASB previous practice this should be based on a clear analysis of public sector issues consistent with the IPSASB document *Process for Reviewing and Modifying IASB Documents*.

Finance believes the Financial Statement Discussion and Analysis report (FSDA) should be capable of being read as a standalone document, with references to other publicly available information where relevant.

Finance is also of the view that differential reporting is an important issue in the development of International Public Sector Accounting Standards, including FSDA.

Finance would further recommend developing a consistent and clear proposal with respect to the required content and inclusion of forward-looking information. In addition, a budget funded government entity would be a more appropriate illustrative example.

Comments by Finance on the Specific Matters for Comment in the Exposure Draft are attached.

If you have any queries regarding Finance's comments, please contact Veronique Row on +612 6215 2104 or myself on +621 6215 2832.

Yours sincerely



Alastair Higham
Acting Assistant Secretary – Accounting Policy
Department of Finance and Deregulation
27 July 2012

International Public Sector Accounting Standards Board (IPSASB)

Financial Statement Discussion and Analysis - Exposure Draft (the ED)

General Comments – Financial Statement Discussion and Analysis (FSDA)

The Australian Department of Finance and Deregulation (Finance) has provided input to the submission made by the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). Overall, Finance supports HoTARAC's comments on the ED proposals.

However, some of Finance's views diverge from those of the majority of HoTARAC. These divergent views and other issues that Finance consider significant are listed below:

Mandatory requirement

Finance supports the ED's proposal of developing a standard on this topic, rather than guidance.

Modification of International Financial Reporting Standard (IFRS) document

Finance notes the justification of BC2 for not converging with the IFRS Practice Statement *Management Commentary* (the IFRS Practice Statement) on the grounds of the users being different and the greater regulatory oversight of the private sector. As the required content of the FSDA appears similar to the IFRS Practice Statement and the proposals reinforce oversight by being an International Public Sector Accounting Standard (IPSAS) with mandatory application, Finance recommends the IPSASB more clearly enunciate the reason for not modifying the IFRS Practice Statement by reference to the IPSASB document *Process for Reviewing and Modifying IASB Documents*. As per previous HoTARAC comments submitted to the IPSASB and other standard-setters, Finance's preference is also that the IPSASB and International Accounting Standards Board work closely to achieve convergence of their respective frameworks and other pronouncements, unless divergence is justified for situations and circumstances unique to the public sector issues.

Scope of the Proposals

Finance agrees with HoTARAC's comments and consider this matter significant enough to raise it in its own submission. Finance's recommends that IPSASB clearly delineates the user needs the ED is meeting, what forward-looking information should be included to meet these needs (if any) and the basis for this information (i.e. appropriate fact-based and supportable assumptions need to be clarified). If the FSDA is an explanation of the financial statements without consideration of future prospects, strategies and risks will only be included to the extent they have been implemented in the past or exist as at reporting date and the restriction of information to currently known facts and supportable assumptions is appropriate. However, if the proposals are intended to include assessment of the entities future prospects in respect to strategic directions and risks and opportunities, as suggested in the ED, discussion around the topics will usually require inclusion of the forecasts, projections and predictions that underpin management decisions in these areas. There is a need to clarify the Board's intention on this matter.

Differential Reporting

Finance broadly agrees with the HoTARAC response that the IPSASB should acknowledge different requirement of users of financial statements and sees differential reporting as an important issue in the continuing development of IPSASs, including the FSDA.

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?

Finance agrees the proposal should be developed as an IPSAS, subject to an appropriate focus between historical and forward-looking information as noted above in the general comments.

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?

Finance agrees.

As noted in the response to Specific Matter for Comment 1, Finance favours development of the proposals as a standard. Therefore, other standards should be amended as required for consistency.

Specific Matter for Comment 3:

Is the scope of the 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)?

Finance agrees, subjects to our comments on the content of FSDA in Specific Matter for Comment 4.

Finance suggests rewording paragraph 11 to clarify the FSDA is separate from both the financial statements and other information in the General Purpose Financial Reports not subject to IPSASs. This will clearly distinguish commentary prepared under the proposal with other management commentaries (for example the chairman/director's report).

Specific Matter for Comment 4:

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

Subject to the comments above on the scope of the proposals, Finance agrees that overall the required content is appropriate. Finance supports HoTARAC's comment that the FSDA should be capable of being read as a standalone document. Finance is of the view that the FSDA should enable report users to refer to the financial statements and other publicly available information to gain further insight into a particular point. To this end Finance recommends that the FSDA should avoid unnecessary duplication of information already in the financial statements and that the FSDA include cross references to other publicly available information where appropriate.

In the response to Specific Matter for Comment 6, Finance has also provided comments on the examples of information in Section B of the Implementation Guidance.

Specific Matter for Comment 5:

Do you agree with the transitional provisions?

Finance agrees to IPSASB's proposal that where an entity has applied the transitional provision in IPSAS 1, it is unlikely to have comparative information and thus it would not be possible to provide comparative information.

Specific Matter for Comment 6:

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

Finance agrees with HoTARAC that providing examples of information to be included in the FSDA is useful to understanding the requirements of the proposals.

Consistent with HoTARAC's comment, Finance believes that the benefits of providing FSDA should outweigh the costs of preparing it. Additionally, as noted in the response to Specific Matter for Comment 4, Finance's preference is for the FSDA to be capable of being read as a standalone document and recommends it not be overburdened with unnecessary detail. Accordingly, Finance supports the HoTARAC view that some of the examples provided in Section B of the Implementation Guidance are too detailed for the level of requirement included in the proposals.

Specific Matter for Comment 7:

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

Finance agrees with the HoTARAC response that the illustrative examples, while potentially useful, could be improved. In particular, a more appropriate example would be a budget funded government department and/or other public sector entity as this is a more common scenario for public sector financial statements preparers.