

31 July 2012

Submitted electronically to stepheniefox@ipsasb.org

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

Dear Stephenie,

Comments on the Exposure Draft on Financial Statement Discussion and Analysis

We appreciate this opportunity to comment on the *Exposure Draft on Financial Statement Discussion and Analysis*. The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors.

We express our support for the overall proposal of developing a framework for the preparation and presentation of financial statement discussion and analysis in public sector entities' which provides useful information to users for accountability and decision-making purposes.

Our comments are presented under the following sections:

1. General comments
2. Specific matters for comment

If you have any questions or would like to discuss the matters in our comments, please contact Sandy van Esch on: +27 87 940 8871 or at svanesch@irba.co.za.

Yours sincerely



Sandy van Esch
Director: Standards

Comments on Exposure Draft – ED 47
Financial Statement Discussion and Analysis
(Comments Due by 31 July 2012)

Comment
1. General / Overall
1. Exposure draft (ED) 47 regarding financial statement discussion and analysis, states that the information required by the ED should be clearly identified and distinguished from the financial statements. There are also resulting changes made to IPSAS 1 that states that the required information is not part of the financial statements
2. The ED states that the information should be based on “currently known facts and supportable assumptions”, but other information in the ED seems to be forward looking
3. We believe that ISA 720 is applicable and the auditor would read the information to determine whether it is consistent with the financial statements. Even though some of the information seems forward looking, the auditor is not required to provide an opinion on the other information and we do not foresee any audit implications.
4. We would encourage management to use tables, graphs and percentages to improve comparability, without repeating the Annual Financial Statement information. (From there, relevant references to paragraphs can be made.)
5. Par. 25 refers to the “main events, trends and factors influencing the current reporting period”. These terms are not clearly defined and could result in differences between the preparers and auditors. These differences could have reporting implications should assurance type reports be required.
6. The section under the heading “risks and uncertainties”, paragraphs 27 to 32 contain a number of “requirements” expressed with the word “may”. The authority attached to the requirement expressed as “may”, is illustrative and could result in the requirement being ignored by management as there is not a clear “requirement” to include certain disclosures.
7. The cost of the additional reporting and auditing should be evaluated against the benefit the additional disclosures are expected to provide to users of the financial statements.
8. It will not be possible for the auditor to express an opinion on the required management discussion and analysis presented by

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Comment
<p>1. General / Overall</p> <p>management in totality, for example:</p> <ul style="list-style-type: none">• The information that is required to be disclosed will contain financial and non-financial measures and data. Some of these measures are open to interpretation and not defined in terms of a framework. The auditor would have to consider the type of measure to be reported on to determine whether it could be included in an assurance engagement by the auditors. In general, the auditor cannot express an opinion on non-financial measures.• Some of the disclosures will be forward-looking and therefore not capable of being audited within the usual scope of an audit of historical information prepared in accordance with a recognised financial reporting framework.• Some of the information will require the analysis of certain service objective income and expenditure in more detail, to calculate a service result (net income/cost per service objective) and may be beyond the capacity and competencies of smaller municipalities. The auditor’s scope would be significantly increased from financial statement audit requirements.• The extent of qualitative disclosures, for example, risks and uncertainties, would bring about an increased audit scope, as these disclosures are not clearly defined, could be entity specific and be influenced by various factors. It is also envisioned that the disclosures could reside in a separate section of the financial report. The expression of an opinion by the auditor on these disclosures would require careful consideration to determine if at all possible.• It is proposed that the <u>management discussion and analysis</u> should be read by the auditor in accordance with ISA 720 to <u>identify any material inconsistencies with the audited financial statements</u>. Thus, <i>“when the auditor reads the other information, the auditor does so in the light of the knowledge the auditor has acquired during the audit and accordingly does not express any opinion on the management discussion and analysis”</i>.

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Question	Comment
2. Specific	
<p>1. <i>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?</i></p>	<p>Yes, the material should be developed as an IPSAS that would be relevant to all preparers under IPSAS.</p> <p>The issue arises when information includes forward looking information that the auditor may be unable to provide assurance on.</p>
<p>2. <i>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?</i></p>	<p>Yes, IPSAS 1 should be amended to make it clear that management's discussion and analysis does not form part of the audited financial statements, other than assurance provided on the performance information usually reported on in the public sector.</p>
<p>3. <i>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)?</i></p>	<p>Yes, the scope is clearly defined.</p>
<p>4. <i>Is the required content for financial statement discussion and analysis appropriate?</i></p>	<p>Yes, the content is appropriate.</p>
<p>5. <i>Do you agree with the transitional provisions?</i></p>	<p>Yes, the transitional provisions seem appropriate.</p>

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Question	Comment
2. Specific	
6. <i>Is the Implementation Guidance useful to understanding the requirements of the proposed IPSAS?</i>	Yes, the implementation guidance is useful and provides sufficient detail.
7. <i>Is the Illustrative Example a useful way of illustrating the requirements of the proposed IPSAS?</i>	<p>No, even though the illustrative example provides a comprehensive example of the application of the requirements, it is not representative of the general public entity.</p> <p>We suggest that the example be simplified to provide an example of the typical discussion and analysis expected of a municipal entity or public entity with a narrower service mandate. A simplified example would provide clearer guidance to the level of disclosure expected from a typical size public entity with a limited service delivery mandate.</p>