IPSASB: Consolidated Financial Statements (ED 49)

Comments from ACCA to the International Public Sector Accounting Standards Board (IPSASB)

17 February 2014

Our ref: TECH-CDR-1249

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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ACCA welcomes the opportunity to comment on the Exposure Draft (ED 49) for consolidated financial statements. The views set out in this response reflect those of ACCA's public sector global forum that includes finance professionals, academics and policy advisors.

SUMMARY

We are highly supportive of the work of the IPSASB and developments in international public sector accounting standards. We believe that ED 49 for consolidated financial statements is helpful in setting out a definition of control for public entities and for clarifying matters in respect to the consolidation of temporarily controlled entities.

We are pleased to see a close alignment to IFRS 10 for consolidated financial statements and changes to the terminology to make ED 49 public sector friendly.

SPECIFIC COMMENTS

Specific Matter for Comment 1

Do you agree with the proposed definition of control? If not, how would you change the definition?

We support the proposed definition of control set out in ED 49, which sets out three elements of control to be considered by public entities – exposure to, or rights to variable benefits – power over an entity - the ability to use its power over an entity. Also, we agree that at the outset a public entity should consider all facts and circumstances when assessing whether it controls another entity. It should routinely reassess whether it controls another entity, if one of the three elements of control change.

Specific Matter for Comment 2

Do you agree that a controlling entity should consolidate all controlled entities (except where otherwise stated in this ED)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment

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for any such controlled entities? If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

We agree that as a general principle a public entity should consolidate all entities over which it has control with the exception of investment entities. Apart from investment entities, we have not identified any other categories that should be exempted from consolidation.

Specific Matter for Comment 3

Do you agree with the proposal to withdraw the exemption in IPSAS 6, consolidated and separate financial statements (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).

We agree with the proposed withdrawal of the exemption from consolidation for temporarily controlled entities. It is often problematic determining the cut-off point of when and when not to classify an entity as temporarily controlled. In some cases, control for short periods often becomes longer because of unavoidable circumstances e.g. the UK government control of RBS bank which is now in its third year. This is particularly the case where a significant reorganisation of the entity acquired is necessary before it can be removed from public control.

Overall, we believe that consolidating temporarily controlled entities will improve comparability and consistency within public sector accounting, as well as recognising the risk and costs involved.

Specific Matter for Comment 4

Do you agree that a controlling entity that is an investment entity should account for its investments at fair value through surplus and deficit?

We agree with the above proposal that an investment entity should account for its investments at fair value through surplus or deficit.

Specific Matter for Comment 5

Do you agree that a controlling entity that is not itself an investment entity but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments in

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the controlled entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this standard?

Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practical?

We agree that a controlling entity that is not itself an investment entity, but which controls an investment entity should consolidate in accordance with IPSAS 29, by measuring the investments in the controlled entity at fair value through surplus or deficit. Before doing so, an entity should consider all the facts and circumstances when assessing whether it is an investment entity, including its purpose and design.

To ensure consistency of valuation and presentation of similar controlled entities we agree that the proposed approach is practical.

Specific Matter for Comment 6

The IPSASB has aligned the principles in this standard with the Government Finance Statistics Manual 2013 where feasible. Can you identify any further opportunities for alignment?

We have no comments to make on the above.

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