

30 July 2012

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Dear Stephenie

IPSASB Exposure Draft ED 47 Financial Statement Discussion and Analysis

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Exposure Draft ED 47 Financial Statements Discussion and Analysis (FSDA). CPA Australia, the Institute of Chartered Accountants and the Institute of Public Accountants (the Joint Accounting Bodies) have considered the proposals and our comments follow.

The Joint Accounting Bodies represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We do not support the IPSASB decision that FSDA is necessary to meet the objectives of general purpose financial statements. Accordingly, we do not agree with the IPSASB conclusion that all entities that prepare and present their financial statements in accordance with IPSASs be required to prepare FSDA in accordance with IPSASs. We reason that the IPSASB's decisions are not consistent with its proposed Conceptual Framework which uses a hierarchy to differentiate the information needs of users by category. General Purpose Financial Reports as one category within that hierarchy consists of two sub-categories, being, "General Purpose Financial Statements" and "Additional information".¹ We believe the FSDA is one example of the additional information sub-category and we consider it premature to require such reporting. Therefore, we encourage the IPSASB to proceed with the development of this material as guidance.

Further, we consider the FSDA would be improved if its purpose was broadened to include the provision of management's perspective of the entity performance, position and direction so as to assist users to understand all material factors that have influenced the information presented in the financial statements (and that might include information items not presented in the financial statements as they do not meet accounting recognition, measurement or disclosure requirements and/or non-financial factors). The IASB Management Commentary has a broader purpose; as currently presented the FSDA is over focused on explaining the financial statements. We do not believe the IPSASB has made the case for non-convergence with the IASB Management Commentary practice statement.

Representatives of the Australian Accounting Profession



cpaaustralia.com.au



The Institute of
Chartered Accountants
in Australia

charteredaccountants.com.au

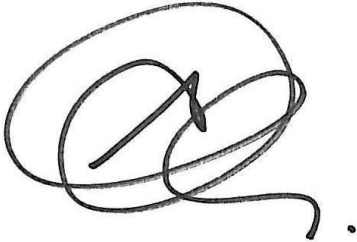


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The Appendix to this letter contains our response to the questions for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely



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¹ The second sub-category is restricted to information that is necessary to meet the accountability and decision-making objectives of general purpose financial statements.

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?

We do not support the material presented in this Exposure Draft being developed as an IPSAS. We do not consider the financial statement discussion and analysis (FSDA) to be part of the general purpose financial statements. Instead, we believe it is part of the additional information that together with the general purpose financial statements comprises the general purpose financial report. Although we consider it premature to require such reporting, we encourage the IPSASB to proceed with the development of this material as guidance.

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?

As it is our view that this material should be guidance (see our response to Specific Matter for Comment 1), an amendment to IPSAS 1 is not necessary.

However, if the IPSASB decision is to issue the material as a standard, we support the addition of paragraph 21A to IPSAS 1 as it would make clear that the FSDA forms part of the general purpose financial statements.

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)?

Paragraph 11 of the exposure draft, clearly separates FSDA from the financial statements and paragraph 15 sets out the minimum required content. The statement in paragraph 24 that there is no requirement for the FSDA to include forward-looking information is a point of difference from the report on the long-term sustainability of public finances. Nevertheless, the exposure draft generally is not precise as to the boundary of the information that is FSDA and not part of service performance and/or long term sustainability of public finances reports - an outcome that is not helpful to preparers or users.

Specific Matter for Comment 4:

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

The required minimum content of the FSDA will include an overview of the entity, information about the entity's objectives and strategies, and analysis of the entity's financial statements, including variances and trends, and information about the entity's risks and uncertainties, including its risk management strategy. We support the minimum requirements as they appear to be consistent with the purpose of the FSDA, being to assist users' understanding of the financial statements for accountability and decision-making purposes.

Paragraph 26 of the exposure draft states that to the extent such information is not included in the financial statements, FSDA will include information about significant variances between actual results and the budget; and prior and current year financial statements. The requirements of paragraph 26 do not appear to be consistent with the option under IPSAS 24 *Presentation of Budget Information in Financial Statements* for the explanation of variances in the financial statements, or FSDA, or some other public document.

That said, we consider the FSDA as currently presented is over focused on explaining the financial statements. We consider the FSDA would be improved if its purpose was broadened to include the provision of management's perspective of the entity performance, position and direction so as to assist users to understand all material factors that have influenced the information presented in the financial statements. The proposals also specifically exclude prospective information which is inconsistent with the IASB proposals.

Specific Matter for Comment 5:

Do you agree with the transitional provisions?

We agree with the transitional provisions.

Specific Matter for Comment 6:

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

The inclusion of extensive implementation guidance can be useful; especially its contribution to assisting the development of reporting that is comparable. It is felt that an example with a broader application, such as a government department, would be more useful. However, information of this type in an IPSAS can also have an unintended consequence in that entities simply use this information as a checklist to replicate in their own reports and thereby dilute the quality of the FSDA report. Therefore, striking the right balance will be important.

Specific Matter for Comment 7:

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

Should the IPSASB proceed with including illustrative examples, it is important that the examples used are helpful. Government departments and authorities are not likely to find the current example, a government of a country, particularly relevant.