

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

Dear Sirs,

**Exposure Draft (ED) 47 Financial Statement Discussion and Analysis**

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to respond to the International Public Sector Accounting Standards Board (IPSASB) request for comments on ED 47. We are wholly supportive of the IPSASB's drive to improve the quality of financial reporting of Public Sector Entities (PSEs). We also fully agree with IFAC's objective of improving the transparency and accountability of Government reporting.

**General comments**

We note the alternative view that ED 47 should require forward looking information and we are sympathetic to this view. Currently financial statements are mainly backwards looking, although the progression towards the use of fair value in accounting standards has resulted in financial statements containing much more forward looking information than they did previously. However, we consider it would be worthwhile revisiting the consideration of including forward looking information particularly in the context of when a public sector entity has an agreed budget for the next financial period and when government has set targets for spending and borrowing.

**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 accruals based IPSASs, which applies to all entities that prepare financial statements in accordance with IPSASs?*

We do not agree that the material presented in the exposure draft should be developed as an IPSAS with the same level of authority as the accruals based IPSASs inside the scope of IPSAS 1. There are a number of reasons for this:

- a) We are concerned that application of the standard may not pass the cost/benefit test for some public sector entities.
- b) Data published by governments in one quarter of a year can be revised in a following quarter when better information about that data becomes available, which raises questions regarding the type of opinion an auditor could provide on such information.
- c) There is a qualitative aspect to certain government data, particularly in areas such as; measurements of GDP, dimensions of well-being and efficiency savings which again raises questions regarding the type of opinion an auditor could provide on such information.

ISA 700 "Forming an opinion and reporting on financial statements" requires an auditor to undertake a rigorous evaluation of their work and the financial statements, which is a much more testing requirement than is required by ISA 720 "Auditor's responsibilities relating to other information in documents containing audited financial statements" which requires an auditor to only read the other information presented alongside the financial statements to identify any material inconsistencies. If ED 47 has the same level of authority as other IPSAS then it should also be subject to the same level of auditor scrutiny.

We suggest that the ED is first issued as a Recommended Practice Guideline and that a review of its status be considered when there is greater experience of the preparation and audit/review of the discussion and analysis prepared.

***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?*

We agree that preferably the ED 47 would be issued as a full standard and that it would be inside the scope of IPSAS1 however we consider this is not practicable given the concerns we raised under comment 1 and therefore we agree that IPSAS 1 should be amended to clearly indicate that financial statement discussion and analysis is not a component of the 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 IPSASB (e.g. financial statements, service performance reporting, reporting on long-term sustainability of public finances)?*

We consider the financial statement discussion and analysis scope to be sufficiently well defined and we consider it complimentary to the other issues being addressed by IPSASB.

***Specific Matter for comment 4***

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

We agree that it is appropriate for the required content to include; information on the market the entity operates in, highlights of the year, key performance indicators, financing review and going concern, risk management and “corporate” responsibility.

***Specific Matters for Comment 5***

*Do you agree with the transitional provisions?*

We agree with the transitional provisions.

***Specific Matters for Comment 6***

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

We agree the Implementation Guidance is useful. We would prefer not to see the use of language in the Guidance such; as strong, weak, significant and rebound as these are relative terms and are subject to personal judgment. We would prefer to see only factual language used in the Guidance.

***Specific Matters for Comment 7***

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

We note that the local laws and regulations in many jurisdictions already require the provision of such a discussion and analysis for public sector and non-public sector entities. Our experience of the quality of such discussion and analysis where it is provided is that it is quite mixed. Some analysis is very good and some not so good with some entities adopting a ‘boiler plate and check the box’ approach to compliance which, is clearly contrary to the objectives of ED 47. We therefore agree that the inclusion of a discussion and analysis to accompany the financial statements is a positive step and we agree that the form and content of the examples included in section B provides a good indicator of what the discussion and analysis should contain.

Yours faithfully

Steven Ralls BA, FCA  
Head of Accounting and Auditing Standards Desk  
Financial Audit and Examination, Abu Dhabi Accountability Authority