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

Dear Stephanie,

ED 48 Separate Financial Statements

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on ED 48. We are fully supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and improve the transparency and accountability of government reporting.

General Comment

IPSAS 1.1 states: *"The objective of this standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability…"*

Most asset accounting standards have two methods of accounting; cost, or revaluation. Introducing a third method of accounting for an asset would seem counter intuitive to the comparability objective of IPSAS 1.

Our comments on the specific question asked by the IPSASB are as follows:

Specific Matter for Comment 1:
Do you agree generally with the proposals for separate financial statements? In particular, do you agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities?

We do not agree with the proposal to permit the use of the equity method for investments in other entities.

An entity that determines to provide separate financial statements presumably does so to focus on its own financial performance and its stewardship of the assets it owns. We consider that the most relevant measures therefore to assess, is what the cost of those assets were and what are the economic benefits, or amount of service provision, that they can deliver. These considerations we feel lead one to a cost or revaluation measure for the asset.

The basis of conclusions paragraphs 3, 4 and 5 set out the rationale of the IASB for withdrawal of the equity method from IFRS in 2003. It also sets out that the rationale of the IASB for potentially re-introducing it back into IFRS is due to the legal requirement of its use in certain countries. We consider such a reason for re-introduction to be a mistake. Accounting standard setters have a duty to set the best possible standards that they can and should not seek to appease countries by making changes because of local legislation.

It is not certain that the IASB will re-introduce equity accounting and if they conclude not to then IPSAS will be out of step with IFRS.

BC 5 sets out the IPSASB's rationale for including the use of the equity method. We agree that investment entities are used as 'instruments' to enable service provision and we agree that in the public sector there are likely a higher proportion of investments for which there is no active market. Our view is that this means it is even more important therefore to measure either the consumption of the asset or its remaining service provision.

IPSAS 1.15 states that *“The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and valuating decisions about the allocation of resources. Specifically…to provide information useful for decision making and to demonstrate the accountability of the entity for the resources entrusted to it...”*

If the investments in the separate financial statement are recorded using the equity method, the same information is provided in the consolidated financial statements, and therefore would not provide any additional useful information.

Yours faithfully

Steven Ralls BA, FCA
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Financial Audit and Examination, Abu Dhabi Accountability Authority