

23 July 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

Exposure Draft 47
Financial Statement Discussion and Analysis

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Exposure Draft 47

Financial Statement Discussion and Analysis

Overall comments

ACAG supports the concepts outlined in the exposure draft. As per previous responses to the IPSASB, ACAG agrees with the objectives of financial reporting, including narrative reports as outlined in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity. However, for the reasons outlined below, ACAG does not believe that the material contained in the ED should be issued as an IPSAS initially, but should be first released as guidance.

Specific Matters for Comment

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?

ACAG does not agree that the material in this Exposure Draft should be developed as an IPSAS at this stage.

ACAG notes that the IASB has not issued a mandatory standard in regards to its 'Management Commentary' project, recognising that Governments and regulators in some jurisdictions already issue their own requirements or provide guidance.

The Basis for Conclusions argues that in the private sector there may be strong influences from the securities exchanges and regulators to help ensure and reinforce the information needs of users, whereas in the public sector, there may not be a comparable regulator which participates in the process of standardizing financial statement discussion and analysis for a jurisdiction.

Currently in Australia, the requirements for narrative reporting vary between jurisdictions and are at the discretion of each jurisdictional government. ACAG agrees with the Basis for Conclusions and notes that some Australian jurisdictions have not issued effective requirements or guidance regarding commentary on public sector financial statements.

ACAG believes that the information needs of users would be better met (in terms of consistency and comparability) if there was a single source of reporting requirements for financial statement discussion and analysis applying to all public sector entities.

However, ACAG is of the view that issuing a standard at this point would be premature and believes guidance issued by the IPSASB would provide a sound basis for incorporating the material into a standard after some practical experience has been gained. In the interim, jurisdictions and/or reporting entities could adopt the guidance as they see fit but with an understanding of what is recommended practice. This is consistent with the approach taken by the IASB with regards to 'Management Commentary' and the approach taken in ED 46 for reporting on the long-term sustainability of a public sector entity's finances.

Further, the topic is outside the scope of IPSASs as outlined in the Preface to International Public Sector Accounting Standards. The Preface outlines the scope of IPSASs as setting out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements. The ED indicates that while financial statement discussion and analysis is necessary to meet the objectives of financial statements, it does not form part of the financial statements. This would require amending prior to any issuance of an IPSAS on this topic.

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?

In the case that the material is developed as an IPSAS, ACAG agrees that it should be made clear that financial statement discussion and analysis is not considered to be a component of the financial statements, and that the proposed standard does not form part of the financial reporting framework.

The International Standards on Auditing (ISAs), such as ISA 700 refer to ‘financial statements’, being a ‘complete set of general purpose financial statements, including the related notes’ and highlight that the requirements of the applicable financial reporting framework will determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

As such, ACAG believes that IPSAS 1 as amended in the ED is appropriate and will avoid any confusion that may arise.

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)?

ACAG believes the definition of financial statement discussion and analysis is appropriate and distinguishes it from other issues being addressed by the IPSASB.

However, in ACAG’s view certain information included in the Implementation Guidance overlaps with information currently included and required in financial statements. Refer to comments included under Specific matter for comment 6.

Specific Matter for Comment 4:

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

Overall, ACAG believes that the required content as outlined in paragraph 15-32 of the ED is appropriate, and generally reflects the types of information currently required in Australian public sector annual reports. However, we provide the following comments with regards to these paragraphs.

Paragraph 21 requires a brief discussion of the purpose of, and information provided by, each component of the financial statements set out in IPSAS 1, and their interrelationships. The Illustrative Example then includes several paragraphs to demonstrate how this requirement might be met. In ACAG’s view, this is not necessary given the Conceptual Framework provides that users of GPFRs are assumed to have reasonable knowledge and be able to read GPFRs.

ACAG supports the inclusion of forward-looking information, including information such as forecasts or projections. The provision of such information would allow entities to provide users of financial statements with information relevant to assisting them in their decision making. We are aware that user surveys consistently identify forward-looking information as an essential part of modern financial reporting. Please refer to ACAG submissions on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities where we argued for the inclusion of such information. However, our support is predicated on the understanding that the Financial Statement Discussion and Analysis would not form part of the financial statements or otherwise require audit assurance.

Specific Matter for Comment 5:

Do you agree with the transitional provisions?

ACAG agrees with the transitional provisions.

Specific Matter for Comment 6:

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

In ACAG's view, Implementation Guidance is a useful tool when adopting standards for the first time, however we have concerns regarding some of the guidance included in the ED.

We note that it is for the management of an entity to decide how best to apply the standard for the preparation and presentation of financial statements discussion and analysis in the particular circumstances of the entity and it is not possible to provide guidance suitable for all entities.

Section B of the Implementation Guidance includes guidance on how an entity may prepare and present the analysis of the entity's financial statements, as required in the financial statement discussion and analysis.

In ACAG's view, much of the information included in this section is already available in the financial statements. This section also includes some examples of information which ACAG believes is outside the scope of the standard and excessive. This could lead to annual reports which are significantly longer and more costly to prepare.

For example:

- Property, Plant and Equipment
 - An analysis of required maintenance, including future expenditure requirements for maintenance and replacement.
 - The average age and average useful life for each category of property, plant and equipment and an assessment of the assets physical condition to allow users to assess the timing of rehabilitation and replacement expenditure.
 - A description and quantity of the major components of each class of property, plant and equipment giving users an understanding of the nature and extent of the stock of property, plant and equipment.

Information included in the financial statements should already demonstrate the useful life, value, acquisitions and disposals, depreciation, and any profit or loss on sale. Depreciation should reflect the usage of the asset and the value reflects the physical condition of the asset. While information to the extent suggested in the Implementation Guidance is important to making management decisions, it is unnecessary to users of financial statements and may lead to an overload of information. ACAG is of the view that the Implementation Guidance does not accord with the principle of paragraph 15, whereby, the discussion and analysis should not replicate information already included in the financial statement.

Specific Matter for Comment 7:

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

ACAG believes the Illustrative Example may be useful in illustrating what the IPSASB envisages as meeting the requirements set out in the ED. There is, however, a risk that inclusion of an illustrative example may promote the provision of information that does not relate to the specific operations, practices and circumstances of the entity.

ACAG notes however that the Illustrative Example does not contain the level of detail which is contained in Section B of the Implementation Guidance. This may lead to confusion. Further, given the broad range of entities to which the proposed standard may be applied, it is not possible to provide an example relative to all entities.