



**Australian Government**

**Australian Accounting  
Standards Board**

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6 August 2012

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

Dear Stephenie,

**IPSASB Exposure Draft ED 47**  
***Financial Statement Discussion and Analysis***

The Australian Accounting Standards Board is pleased to submit its comments on Exposure Draft ED 47 to the International Public Sector Accounting Standards Board.

The AASB generally supports the proposed requirements for Financial Statement Discussion and Analysis (FSDA). However, the AASB has significant concerns with how the proposals for a Financial Statement Discussion and Analysis (FSDA) would fit within the IPSASB's overarching view of general purpose financial reporting relative to other "broad scope" components being considered in other IPSASB projects, such as service performance reporting and reporting on the long-term sustainability of an entity's finances.

For example, the IPSASB's proposal to make the requirements for FSDA mandatory for entities complying with IPSASs appears to be inconsistent with the IPSASB contemplating non-authoritative guidelines for service performance reporting and reporting on the long-term sustainability of an entity's finances.

The AASB is also concerned with potential inconsistencies between the proposed FSDA requirements and the requirements of IPSAS 24 *Presentation of Budget Information in Financial Statements*, which applies only to entities that are required to or elect to make their approved budget publicly available.

The AASB's comments on the Specific Matters for Comment and other aspects of the proposals are set out in the attachment to this letter.

If you have queries regarding any matters in this submission, please contact me or Natalie Batsakis ([nbatsakis@asb.gov.au](mailto:nbatsakis@asb.gov.au)).

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, stylized "K" and "M".

Kevin M. Stevenson  
*Chairman and CEO*

## **Specific AASB comments on IPSASB Exposure Draft ED 47** *Financial Statement Discussion and Analysis*

### **Specific Matters for Comment**

The AASB provides the following comments on the IPSASB's Specific Matters for Comment set out in the Exposure Draft.

#### 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?

The AASB acknowledges the IPSASB's reasoning for issuing a mandatory IPSAS for FSDA and its proposal that FSDA should not be part of the financial statements. However, the AASB has a number of concerns with issuing the proposed requirements in a Standard.

#### *1. Types of IPSASs*

In paragraph BC11, the IPSASB notes that introducing a new type of pronouncement with authority equivalent to that of an IPSAS would be confusing to constituents. Therefore the IPSASB decided that an IPSAS would be appropriate for FSDA. However, the AASB considers that the potential for confusion would now arise in relation to IPSASs "applicable to financial statements" and "other" IPSASs, of which an IPSAS for FSDA would be the first. This is because a consequential amendment proposed in the ED is to amend paragraph 28 of IPSAS 1 *Presentation of Financial Statements* to require an entity's financial statements to include a statement of compliance with "IPSASs applicable to the financial statements" instead of just "IPSASs". Paragraph 13 of the ED would require the entity's FSDA to include a statement of compliance with only the IPSAS concerning FSDA.

This means that an entity could report that its financial statements complied with IPSASs applicable to financial statements, even if it did not present FSDA information, since FSDA would not be required by those IPSASs. This raises the question of whether issuing an "other" IPSAS would truly result in mandatory requirements – where would non-compliance with the FSDA IPSAS be reported, when FSDA could be presented (or not) in a document separate to the financial statements? However, requiring the financial statements to include a cross-reference to any FSDA, or to state whether FSDA had been presented in other documents, would identify when the FSDA requirements had not been complied with, and would not result in non-compliant financial statements if FSDA had not been presented.

Paragraph BC10 notes concerns over audits of FSDA if it were part of the financial statements and if any FSDA pronouncement were an IPSAS. However, auditors would address compliance of financial statements with IPSASs that are relevant to the financial statements, which excludes IPSASs relevant to other things, such as FSDA (assuming that FSDA is clearly separate from the financial statements). This practicality removes the need

for a separate category of IPSASs, and the proposed amendment to paragraph 28 of IPSAS 1 should not be made.

Nevertheless, the AASB would support the issue of non-authoritative guidelines on FSDA, rather than an IPSAS. The AASB notes that the IPSASB is progressing another project, reporting on the long-term sustainability of an entity's finances, in which the proposed pronouncement would be a non-authoritative statement, titled a Recommended Practice Guideline (RPG). The IPSASB's Consultation Paper on reporting service performance information also raises the possibility of issuing non-authoritative guidance.

## 2. *Existing Jurisdictional Requirements*

The AASB considers another argument against making the FSDA requirements mandatory is that the requirements in a final IPSAS could be different to or inconsistent with existing requirements for such disclosure in a jurisdiction. Paragraph 14 in the ED refers to the possibility of existing requirements and encourages entities to disclose information about compliance with those requirements.

The AASB suggests that the IPSASB could issue a Recommended Practice Guideline and address whether it should become mandatory after a period of experience for public sector entities applying the Guideline alongside other FSDA requirements.

### 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?

If a mandatory IPSAS is to be issued, the AASB supports the addition of paragraph 21A to IPSAS 1, to make clear that FSDA is not considered to be part of the notes to the financial statements. Otherwise, FSDA would appear to be part of the financial statements under paragraph 21(f) of IPSAS 1, which refers to explanatory notes, and non-compliance with the FSDA requirements would mean that the financial statements would not comply with IPSASs.

### 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)?

The AASB has significant concerns with how the proposals for FSDA would fit within the IPSASB's overarching view of general purpose financial reporting. Aspects of the IPSASB's projects on service performance reporting and reporting on the long-term sustainability of an entity's finances can be seen to be covered by FSDA requirements.

For example, the AASB believes that service performance information could be encompassed by the definition of FSDA, e.g. performance efforts would be reflected in the transactions and events recognised in the financial statements and thus subject to FSDA

explanation. More specifically, paragraph 18(e) of the ED refers to information about service delivery methods and changes therein, which could well be a feature of service performance information. In addition, discussions about the entity's performance/objectives/strategy could give indicators of the long-term sustainability of the entity.

The AASB believes that more work is required by the IPSASB to properly distinguish the expected reporting outcomes of its various projects that address the broader scope of general purpose financial reporting.

#### Specific Matter for Comment 4

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

As discussed above, the AASB has a number of concerns regarding the proposed content for FSDA and its interaction with the content of other projects.

Paragraph 15 of the ED sets out the minimum required content, broadly covering an overview of the entity, its objectives and strategies, analysis of the financial statements, including variances and trends, and risks and uncertainties. Whilst the AASB considers there to be reasonable flexibility in providing suitable information under these headings, we do not believe that they can be considered in isolation as there will likely be significant overlap between these requirements and the content of the other IPSASB projects.

The AASB is also concerned with the interaction of the proposed requirements and IPSAS 24 *Presentation of Budget Information in Financial Statements*. Paragraph 26 of the ED would require that FSDA address budget variances to the extent that such information is not included in the financial statements, which, in effect, broadens the scope of IPSAS 24 to entities that would not otherwise publish budget information. In addition, this requirement would effectively remove the option under IPSAS 24 (paragraphs 14(c) and 19, as proposed in ED 47 to be amended) for the explanation of variances to be presented in the financial statements, or FSDA, or some other public documents issued in conjunction with the financial statements. The AASB believes that such information should not be a requirement, being disclosed at the discretion of the entity if it considers that such information provides additional information about the current year's financial performance and/or position.

In addition, the intended meaning of paragraph 21 of the ED, which proposes a discussion of the purpose of each component of the financial statements, is unclear. The FSDA should not be an accounting primer.

#### Specific Matter for Comment 5

Do you agree with the transitional provisions and effective date?

The scope of IPSAS 24 excludes public sector entities that are not required to, and that do not elect to, present budget information. However, the current wording proposed in paragraph 35 would appear to require all entities to adopt IPSAS 24 if adopting the FSDA Standard early. This would contradict the scope paragraphs of IPSAS 24. Paragraph 35 does not need to refer to either IPSAS 1 or IPSAS 24, as applying the FSDA IPSAS would

result in the amendments to IPSAS 1 and IPSAS 24 also being “applied” – which does not change the scope of IPSAS 24.

Paragraph 33 should be deleted. The paragraph, which specifies that all the provisions of the Standard should be applied from the date of first adoption, is not included in other IPSASs and has not been necessary in the past. It would be appropriate to address such a transition provision only when a staged implementation is permitted.

If the IPSASB issues non-mandatory guidelines instead of an IPSAS, the AASB notes that an effective date would not be required. As soon as they have been published by the IPSASB, it is up to each entity to decide whether to disclose the degree of compliance with Recommended Practice Guidelines. An entity that considered it needed more time and experience with the subject matter before reporting its compliance with or departure from the Guidelines could simply choose not to report any comparison until it was ready to do so. An effective date therefore would not be useful.

#### Specific Matter for Comment 6

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

Yes. The AASB considers that the Guidance can be useful, particularly to entities that have not provided FSDA information previously. However, there is some risk that sections B and C (examples of information about the entity’s financial statements and about variances and trends, respectively) could become checklists for such information. Nevertheless, the AASB supports retaining the Guidance as accompanying a final pronouncement.

#### Specific Matter for Comment 7

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

Whilst the AASB thinks that the Example is potentially useful, particularly to governments that have not provided FSDA information previously, it is a long and detailed illustration of the FSDA for a national government, and therefore irrelevant to other public sector entities, such as government departments and authorities. Given that real examples will be available from governments and other entities that provide FSDA under either an IPSAS or other requirements, the AASB suggests that the Example should not be retained in a final pronouncement.

#### **Other Comments**

Paragraph 22 of the ED is too liberal in allowing measures of performance “... that are not required by or defined by IPSASs.” The FSDA should be constrained to information that would not detract from IPSAS-based information in the FSDA or the financial statements.

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