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July 16, 2012

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

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS Exposure Draft 47 on Financial Statement Discussion and Analysis (FSD&A). We are pleased to see the IPSASB address discussion and analysis of financial statements since much of the financial data presented is not clearly understood by many governmental decision makers.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. Our response to each of the specified comments is as follows:
 - a. In response to 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 agree that an IPSAS should be issued. However, we have some reservations as to whether a FSD&A should be required or whether it should only be

encouraged. ED 47 is a very general statement and covers a wide range of objectives. The key problem is with the objectives of financial statements. We would suggest that financial statements for sovereign entities and sub-national public sector entities fulfill three primary objectives:

- 1) Information on solvency - for existing and potential creditors, citizens and other persons/organizations with an interest in the entity.
- 2) Information on the performance of management - accountability to the citizens and other stakeholders.
- 3) Information that can be used to enhance forecasting and hence as the basis of decisions.

Achievement of the above objectives will be enhanced by the narrative FSD&A statements and hence we support such statements but consider they should be encouraged rather than mandatory. Their content should achieve a balance between the above information requirements.

- b. In response to 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.
- c. In response to 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)?, we agree.
- d. In response to Comment 4 (Is the required content for financial statement discussion and analysis appropriate?), we agree but would like to have seen the following included: an overview of the entity's structure, the organizational scope of the Accounting Officer's responsibilities, the geographic location of significant offices and service delivery points, and staffing levels in significant branches. In addition, we would like the following to be considered:
 - 1) A FSD&A should describe the significant events and activities that have affected the implementation of the entity's budget. An analysis should be provided of at least the last five financial years indicating the key changes to the entity's budget, actual financial results and any significant trends. In contrast, ED 47 only states (paragraph C.IG6, page 30): "Trend analysis may cover several prior years if the information is available and can be presented in a consistent manner."
 - 2) More information should be provided to explain and account for all significant variances between the actual and the budgeted revenue and expenditure. Guidance should be provided on the level of detail to be provided which is necessary to ensure the Accounting Officer is actually held accountable to the governing body and the public for their management of the entity's budget. The only guidance contained in the current ED is: "26. To the extent such information is not included in the financial statements, financial statement discussion and analysis should include information about significant positive and negative variances between: (a) Actual results and the budget; and (b) The prior year and current year financial statements, by explaining

- significant changes and highlighting trends.” In contrast, far more detail is provided in ED 47 on the information which is to be provided on the risks and uncertainties the entity faces. There should be a balance between accounting for past actions and results, and providing indications of the future financial performance of the entity.
- 3) Full details and explanations are required where any budgeted amounts or appropriations have been exceeded or expenses incurred without appropriate authority from the governing body. This should include details of what expenditure was found to be necessary, what steps were taken to obtain appropriate authority for the expenditure and how information about this expenditure was reported to senior officials and governing body at the earliest possible date. Details and explanations are also required to account for significant under-spending of budgeted amounts.
 - 4) An explanation should be provided of the following sentence from paragraph 14 of IPSAS 24 (and also paragraph 1.9.8 of the Cash Basis IPSAS): “The comparison of budget and actual amounts shall present separately for each level of legislative oversight.”
 - 5) There should be encouragement that narrative reports are concise and avoid either platitudes or becoming condescending to users. However, we recognize that it is difficult to be prescriptive in relation to such matters.
- e. In response to Comment 5 (Do you agree with the transitional provisions?), we agree.
 - f. In response to Comment 6 (Is the Implementation Guidance useful to understanding the requirements of the proposed IPSAS?), we agree.
 - g. In response to Comment 7 (Is the Illustrative Example a useful way of illustrating the requirements of the proposed IPSAS?), we agree but would like to have seen a trend line for tax rates. In addition, the illustrative example included with ED 47 includes more information about the country’s economy rather than the government’s financial transactions and results. It also provides some information on trends in the level of revenue and expenditure over time, but not examples of explanations to account for significant differences between the budget and actual results.
4. We recognize that there are some philosophical differences between the Cash Reporting IPSAS and the accrual IPSAS since the former emphasizes “fiscal discipline” and the latter emphasizes both “fiscal discipline and fiscal sustainability”. However, we would like to have seen some reference in the Conclusions to why a FSD&A for the Cash IPSAS was not included in the proposed IPSAS for the following reasons:
 - a. As a minimum, we believe that a FSD&A should be encouraged in the Cash IPSAS similar to what was done in developing the standards for "Budget/Actual Comparative Statements (1.9)" and "Recipients of External Assistance (1.10)" and that such an IPSAS should be issued for comment at the same time as this ED 47. It is as important for preparers of the required financial statements under the Cash IPSAS to explain the financial data in their statements as it is for those preparing financial statements under the accrual IPSAS.
 - b. The cash basis (or the modified cash basis) is the approach traditionally adopted in the public sector for accounting officers of individual ministries, departments and agencies to account to governing body for their financial management of the entity for which they are

responsible. With the accrual basis, actual cash receipts are replaced by estimates of revenue due for the year in question and estimates of expenditure (based on guesses on the useful life of buildings and other assets and the cost of funding future pensions).

5. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,

A handwritten signature in blue ink that reads "Jesse W. Hughes".

ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

Masud Mazaffar

Michael Parry

N. Tchelishvili

Andrew Wynne

Cc: Linda Fealing
President, ICGFM