

Swiss Comments to

Exposure Draft-ED 47 Financial Statement Discussion and Analysis

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the intercantal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPSP has discussed *ED 47 Financial Statement Discussion and Analysis* and comments as follows.

2. General Remarks to Exposure Draft

The SRS-CSPCP's attitude towards this ED is critical. It believes that the difference between *Financial Statement Discussion and Analysis* and the actual Notes to the Financial Statements is not constant. The Notes are clearly part of the *Financial Statements* and therefore of the GPFS, while *Financial Statement Discussion and Analysis* is not part of the GPFS but is part of the GPFR.

The SRS-CSPCP is of the opinion that the proposed title *Financial Statement Discussion and Analysis* does not reflect the definition intended. However in Section 8 (page 7) there is a reference to *explanation* only. The title also does not reflect the proposed content of such a document. The proposed content is limited to a description. The expressions *Discussion* and *Analysis* awaken in the users expectations that cannot be fulfilled in such a document. The SRS-CSPCP emphasises that the IFRS is also proposing to draw up such a narrative report. Here the document is called *Management Commentary*.

The SRS-CSPCP therefore proposes changing the title *Financial Statement Discussion and Analysis* to *Financial Statement Commentary*, because it is rather a structured explanation of the Financial Statement than an analysis of ratios. The expression *Commentary* has the advantage that it is consistent with the IFRS. However, we believe that the expression *Management* should not be taken over from the IFRS, because it is sometimes accepted only reluctantly by the public sector.

Below we will use the title *Financial Statement Commentary* and not *Financial Statement Discussion and Analysis*.

In principle the SRS-CSPCP finds that it is useful to comment on the Financial Statement, because in this way it can be better understood by non-accountants

3. 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?”

The SRS-CSPCP does not agree with this proposal. It is of the opinion that this ED should not be developed as a binding standard, because the *Financial Statement Commentary* is not part of the GPFS but is only part of the other GPFR. The SRS-CSPCP points out that in the IFRS the *Management Commentary* is not a standard. Consequently an enterprise that uses IFRS is not compelled to prepare a *Management Commentary* or to apply a specific form in its preparation. The fact of not preparing a *Management Commentary* or of doing so in a different form does not prevent the enterprise's accounts from being in conformity with IFRS. The SRS-CSPCP is of the opinion that the differences between the public and the private sectors do not justify a different solution. In other words, there is no reason for demanding a commentary in the public sector in order to satisfy IPSAS, but not in the private sector, in order to satisfy IFRS.

Furthermore, even if IPSAS are accounting and not auditing standards, there would be problems with the proposal of a standard which would have the "same level of authority as the accrual based IPSAS" when it comes to audit. The discussions within SRS-CSPCP have demonstrated these difficulties. A binding standard should be capable of being audited. As far as the *Financial Statement Commentary* is concerned, it would mean that the overall commentary should be audited, *i.e.* not only the facts and figures it includes, but also the comments and the interpretations it contains. This latter part being possibly the greatest part. Naturally figures and facts can be audited. However, comments and interpretations of the facts and figures are qualitative in nature. In practice they are influenced by politics. For this reason, auditing these qualitative elements is a tricky, difficult, or even impossible task, precisely because these pieces of information are not objective.

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?"

The answer to this question is no longer meaningful, because the ED, as a **binding standard**, is rejected by SRS-CSPCP.

But on the assumption that, and contrary to the opinion of the SRS-CSPCP, a binding standard were created, IPSAS 1 would have to be clarified to show that the *Financial Statement Commentary* is not part 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 the IPSASB (e.g., financial statements, service performance reporting, reporting on the long-term sustainability of public finances)?"

The SRS-CSPCP is of the opinion that it should be clearly understood from the ED that this paper does not belong to the GPFS but belong to the other GPFR. Therefore it would have to be mentioned that the *Financial Statement Commentary* is not a *Financial Statement* and that it is part of the same group as *Service Performance Reporting* or *Reporting on the long term sustainability of public finances*.

Specific Matter of Comment 4

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

The SRS-CSPCP agrees in principle with the content required (Sections 15 to 32, pages 8-11) for the *Financial Statement Commentary*.

Specific Matter of Comment 5

"Do you agree with the transitional provisions?"

Transitional provisions are not necessary, because the ED as a **binding standard** is rejected by the SRS-CSPCP.

Specific Matter of Comment 6

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

Without doubt, the *Implementation Guidance* is important. Its contents should, however, be noticeably improved in 2 ways.

- 1) Firstly it should be more clearly explained that the list of points mentioned does not necessarily reflect reality or the needs of any single entity in the public sector. Consequently the points mentioned are only suggestions, and the list is not exhaustive.
- 2) The contents would also have to be structurally better adapted. To be consistent, the structure would have to correspond to that mentioned under Point 15. Therefore Part A, as proposed, would have to be forgone. All the more so, because the *qualitative characteristics* are already treated in the *Conceptual Framework*, which leads to duplication. Furthermore, Sections B and C, as they are mentioned in this document, should be combined. They are part of the same section *Analysis of the entities financial statements including variances and trends*.

In order to ensure a certain logic in the presentation, the SRS-CSPCP proposes that the Implementation Guidance be structured as follows.

- Section A: Guidance on „*overview of the entity*“
- Section B: Guidance on „*objectives and strategies*“
- Section C: Guidance on „*commentary (instead of analysis) of the entities financial statements, including variances and trends*“
- Section D: Guidance on „*risks and uncertainties*“

In the document proposed the content for Sections A, B and D are lacking. Most of the comment is therefore still to be drawn up.

Specific Matter of Comment 7

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

The SRS-CSPCP finds that the example chosen is not very relevant. It concentrates too strongly on macroeconomic, strategic and objectives aspects. It does not allow the construction of a relationship between the various elements that are expected to be part of the *Financial Statement Commentary*. Consequently the reader cannot obtain the information that is important for an understanding of the public entity’s financial situation.

The SRS-CSPCP also discussed the difficulties that a small public body may encounter in drawing up a *Financial Statement Commentary*. Therefore, in order to be of use for a smaller public entity, it would be desirable to include an example, in which all 4 criteria are described concisely. For large public entities it is then relatively simple to complete the example and adapt it to their needs.

Lausanne, July 5, 2012