

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Abu Dhabi, UAE

**Meeting Date:** March 11–14, 2013

## Agenda Item 5

For:

☐ Approval

☒ Discussion

☐ Information

### Financial Statement Discussion and Analysis

#### Objective(s) of Agenda Item

1. The objective of this session is to **obtain directions** from the IPSASB on the proposed draft IPSAS XX, *Financial Statement Discussion and Analysis*.

#### Material(s) Presented

Agenda Item 5.1	Issues Paper
Agenda Item 5.2	Draft IPSAS XX, <i>Financial Statement Discussion and Analysis</i> Marked-Up Version—Core Text and Appendix A: Amendments to Other IPSASs Only
Agenda Item 5.3	Draft IPSAS XX, <i>Financial Statement Discussion and Analysis</i> Clean Version—Core Text Only
Agenda Item 5.4	IDW's Information Paper: Assurance Issues in relation to IPSASB Pronouncements

#### Action(s) Requested

2. The IPSASB is asked to consider the “Matters for Consideration” in Agenda Paper 5.1 and provide directions to enable further development of IPSAS XX.

## **Issues Relating to Draft IPSAS XX, *Financial Statement Discussion and Analysis***

### **Objective of this Session**

1. The objective of this session is to **obtain directions** from the IPSASB on the proposed draft IPSAS XX, *Financial Statement Discussion and Analysis*.

### **Structure of this Issues Paper**

2. The paper is divided into review of the draft IPSAS and assurance issues.

### **Review of the Draft IPSAS**

3. At its meeting in December 2012, the IPSASB agreed to consider a revised draft IPSAS at its March 2013 meeting. The IPSASB also directed staff to develop a set of criteria for determining the types of documents the IPSASB might develop and whether these would be authoritative or non-authoritative pronouncements. The draft criteria are presented in Agenda Item 3. The issue of the status of the draft FSDA IPSAS will be considered once these criteria have been considered and further developed.
4. Agenda Paper 5.2 presents the marked-up version of the draft IPSAS and the clean version of the core text is in Agenda Paper 5.3. A revised Basis for Conclusions has not been included. It will be revised once the status of the pronouncement has been agreed.
5. The Appendix to this Agenda Paper lists the paragraphs in the draft IPSAS and indicates the proposed changes from the December 2012 version of the draft IPSAS.

<h4><b>Matter(s) for Consideration</b></h4>
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| <ol style="list-style-type: none"> <li>1. The IPSASB is asked to conduct a page-by-page review of the draft IPSAS in Agenda Paper 5.2 and provide feedback on the proposed amendments.</li> </ol> |
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### **Assurance Issues**

#### **Background**

6. At the December 2012 meeting, the IPSASB discussed its concerns that entities will have problems with asserting compliance with IPSASs applicable to the financial statements if they do not follow the proposed requirements in the draft IPSAS. In particular, that FSDA will still be considered to be a part of the financial statements even though the draft IPSAS explicitly states that FSDA is not a component of the financial statements.
7. The IPSASB also discussed a letter it received from the Swiss Federal Audit Office (which was tabled at that meeting). In the letter the Audit Office expresses its concerns over the auditability of ED 47. The Audit Office gives an example that ED 47 requires a public sector entity to include information on objectives and strategy, an analysis of trends, and information about risks. The Audit Office considered that an auditor may find it almost impossible to provide the same level of assurance for this type of information as for the financial statements. However, the Audit Office

also considered that FSDA will be classified as “other information” which would come within the scope of ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon* where the auditors responsibility is to read that other information to identify possible material inconsistencies with the audited financial statements.

8. The IPSASB directed staff to contact both the International Auditing and Assurance Standards Board (IAASB) and the International Organisation of Supreme Audit Institutions (INTOSAI) about this issue. Recent developments relating to the liaison with the IAASB are set out below. Staff has also contacted INTOSAI but has not yet received a response.

### **Recent Developments**

9. In January 2013, the IPSASB received an Information Paper from the IDW (Agenda Paper 5.4) on “Assurance Issues in relation to IPSASB Pronouncements”. This paper sets out the IDW’s views on the potential assurance implications on three of the IPSASB’s projects (FSDA, Reporting on the Long-Term Sustainability of an Entity’s Finances and Reporting Service Performance Information).
10. The IDW considers that “unless the IPSASB determines that a particular GPFR should be a component of GPFs – the Board’s decision as to the authority attaching to an IPSASB pronouncement is not relevant to the audit of GPFs”.
11. There have also been other developments on the assurance issue. Staff of the IPSASB and the staff of the International Auditing and Assurance Standards Board (IAASB) have agreed to establish an IAASB–IPSASB Liaison working group that would address assurance issues related to IPSASs. It will comprise two IAASB members with public sector backgrounds and two IPSASB members. The IPSASB members will be Bob Dacey and Thomas Müller-Marqués Berger. Staff resource will be provided by the IPSASB staff. The group will meet by tele-conference on an ad-hoc basis as the need arises. This group has not reviewed the draft FSDA IPSAS.
12. Staff of both Boards has also informally discussed whether the draft FSDA IPSAS raises any potential assurance implications. Staff of the IAASB indicated that if FSDA is outside the financial statements as specified in the financial reporting framework then there should be no audit issue regardless of the type of pronouncement. Staff of the IAASB considers that the explicit statement in the draft IPSAS that FSDA is not a component of the financial statements makes this point clear.

### **Staff Conclusion**

13. Given the above correspondence, staff is comfortable that the explicit statement in the draft IPSAS that FSDA is not a component of the financial statements addresses the concerns raised relating to assurance issues.

#### **Matter(s) for Consideration**

2. The IPSASB is asked to confirm that the explicit statement in the draft IPSAS that FSDA is not a component of the financial statements addresses the concerns raised relating to assurance issues?

## Appendix: Proposed Changes from Draft Pronouncement Presented at December 2012 Meeting

The table below lists the paragraphs in the draft pronouncement presented at this meeting and cross-references them to the draft pronouncement presented at the December 2012 meeting. It also explains the proposed changes.

Paragraph Number	Paragraph Number at December 2012 Meeting	Comment
<b>Objective</b>		
1	1	No change. Based on IPSAS 18.
<b>Scope</b>		
2	2	Editorial changes.
3	5C	Was paragraph 3. Moved first sentence to paragraph 4. Deleted second sentence and replaced with a more concise sentence. Deleted last sentence as it repeats paragraph 9.
4	2A	New first sentence from paragraph 3 (based on IPSAS 1.62.).
5	5A	Editorial change.
6	4	No change. Standard GBE paragraph.
7	5	No change. Standard GBE paragraph.
<b>Identification of Financial Statement Discussion and Analysis</b>		
8	5B	Editorial change. Based on IPSAS 1.61.
9	5D	No change. Based on IPSAS 1.62.
<b>Reporting Period</b>		
10	6	Deleted last sentence. Based on IPSAS 1.66.
11	7	No change.
<b>Definition</b>		
12	8	No change.
<b>Key Principles of Financial Statement Discussion and Analysis</b>		
–	9A	Deleted.

Paragraph Number	Paragraph Number at December 2012 Meeting	Comment
13	9B	Editorial changes.
14	9C	Amended to include reference to the constraints on information included in the GPFRs.
15	9D	Amended to include list the constraints on information included in the GPFRs.
–	9E	Deleted paragraph on materiality as that is covered in constraints on information included in the GPFRs in paragraph 15.
<b>Content of Financial Statement Discussion and Analysis</b>		
16	10	No change.
–	10A	Deleted.
–	10B	Deleted.
<b>Compliance with this IPSAS</b>		
17	13	No change. Based on IPSAS 1.28.
18	13A	No change.
19	14	Editorial change.
20	–	Inserted paragraph to explain that material departures from the requirements in this IPSAS for statutory/legislative reasons will mean that an entity cannot claim compliance with this IPSAS. Based on IPSAS 1.37.
<b>Content</b>		
21	15	Amended to insert text from paragraphs 17B, 18A, 20A and 26B.
–	16	First sentence: Moved to paragraph 13. Second and third sentences: Moved to paragraph 23.
22	17	No change.
23	17A	Based on second and third sentences of paragraph 16.
<i>Overview of the Entity's Operations and Environment</i>		
–	17B	Moved to paragraph 21(a).
24	18	Editorial changes.

Paragraph Number	Paragraph Number at December 2012 Meeting	Comment
<i>Information about the Entity's <del>Financial</del> Objectives and Strategies</i>		
–	18A	Moved to paragraph 21(b).
25	19	Editorial changes.
26	20	Editorial changes.
<i>Analysis of the Entity's Financial Statements</i>		
–	20A	Moved to paragraph 21(c).
27	21	No change.
28	22	No change.
29	23	Amended text to reflect IPSAS 1.53.
30	24 First two sentences	No change.
31	Rest of 24	Reinserted sentences three and four of paragraph 24 as a separate paragraph.
–	25	Deleted.
32	26	No change.
–	26A	Deleted.
<i>Risks and Uncertainties</i>		
–	26B	Moved to paragraph 21(d).
33	27	Editorial changes.
34	28	Replaced examples with a discussion that the principal financial risks and uncertainties should include negative and positive risks and how they relate to the entity's objectives and strategies. Based on MC.32.
35	29	Editorial changes.
–	30	Deleted.
36	31	Editorial changes.
37	32	Editorial changes.

Paragraph Number	Paragraph Number at December 2012 Meeting	Comment
<b>Transition</b>		
38	33	No change.
39	34	No change.
<b>Effective Date</b>		
35	35	No change. Standard effective date paragraph.
36	36	No change. Standard effective date paragraph.
<b>Appendix A: Amendments to Other IPSASs</b>		
IPSAS 1	IPSAS 1	<ul style="list-style-type: none"> <li>Paragraph 21A—amended to be consistent with paragraph 3.</li> </ul>
IPSAS 24	IPSAS 24	<ul style="list-style-type: none"> <li>Paragraph 14—amended to be consistent with paragraph 3.</li> <li>Paragraph 19—amended to be consistent with paragraph 3.</li> <li>Paragraph BC4—amended to be consistent with paragraph 3.</li> <li>Paragraph BC12—amended to be consistent with paragraph 3.</li> </ul>

# DRAFT IPSAS XX—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

## MARKED-UP VERSION

### Objective

1. The objective of this Standard is to establish principles for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial statements.

### Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting using IPSASs shall prepare and present financial statement discussion and analysis in accordance with ~~apply this Standard when preparing its financial statement discussion and analysis.~~ The reporting boundary for financial statement discussion and analysis shall be the same as that used for the financial statements.
3. Financial statement discussion and analysis shall be published with the financial statements. ~~This Standard applies only to financial statement discussion and analysis. It does not apply to other information included in public documents issued at the same time as the financial statements. Financial statement discussion and analysis may be published as a separate report, or as part of the report that includes the financial statements or as part of another report.~~
4. This Standard applies only to financial statement discussion and analysis. Financial statement discussion and analysis is not a component of the financial statements. IPSAS 1, *Presentation of Financial Statements*, sets out the requirements for the composition of financial statements.
5. This Standard does not ~~mandate specify~~ the level of assurance (if any) to which financial statement discussion and analysis should be subjected.
6. **This Standard applies to all public sector entities other than Government Business Enterprises.**
7. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.

### Identification of Financial Statement Discussion and Analysis

8. **Financial statement discussion and analysis shall be clearly identified, and distinguished from the financial statements and from other information** ~~in the same published document.~~
9. Separate identification of financial statement discussion and analysis enables users to distinguish:
  - (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs applicable to the financial statements;
  - (b) Financial statement discussion and analysis prepared in accordance with this Standard; and

- (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.

## Reporting Period

10. Financial statement discussion and analysis shall be presented at least annually and shall use the same reporting period as that used for the financial statements. ~~An entity shall issue the financial statement discussion and analysis at the same time as its financial statements.~~
11. IPSAS 1 requires financial statements to be prepared at least annually. For consistency, This Standard imposes the same requirement for financial discussion and analysis shall also be presented at least annually using the same reporting period.

## Definition

12. The following term is used in this Standard with the meaning specified:

Financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the factors that influenced them.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

## Key Principles of Financial Statement Discussion and Analysis

- ~~9A. An entity's financial statement discussion and analysis shall provide an explanation of the significant items, transactions, and events presented in the entity's financial statements and the factors that influenced them.~~
13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users<sup>1</sup> to gain an insight on the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, events and transactions and events affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements ~~and supplements~~ the information in the financial statements.
14. ~~Financial statement discussion and analysis shall include information in financial statement discussion and analysis shall meet that possesses~~ the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).
15. The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs. See Phase 4–Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.
- ~~9E. Financial statement discussion and analysis includes only information that is material.~~

## Content of Financial Statement Discussion and Analysis

16. The content of financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.
- ~~10A. The presentation of information in financial statement discussion and analysis shall be retained from one period until the next unless another presentation would be more appropriate.~~
- ~~10B. An entity changes the presentation of its financial statement discussion and analysis only if the changed presentation provides information that is more relevant to users, and the revised structure is likely to continue, so that comparability is not impaired.~~

### Compliance with this IPSAS

17. An entity whose financial statement discussion and analysis complies with this IPSAS shall make an explicit and unreserved statement of such compliance. Financial statement discussion and analysis shall not be described as complying with this IPSAS unless it complies with all the requirements of this IPSAS.
18. An entity can claim compliance with this IPSAS where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSASs applicable to the financial statements because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 of IPSAS 1 and (b) compliance with IPSASs applicable to the financial statements is dealt with in IPSAS 1.
19. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally-imposed regulations. Entities are encouraged to disclose information about compliance with ~~those~~ any such requirements.
20. An entity cannot claim compliance with this IPSAS where it has made material departures from the requirements of this standard in order to comply with legislative, regulatory or other externally-imposed requirements.

### Content

21. To the extent it ~~supplements and~~ does not replicate information in the financial statements, financial statement discussion and analysis shall include:
- (a) An entity shall provide an overview of its the entity's operations and the environment in which it operates. ~~An overview of the entity's operations and environment;~~
  - (b) Information about the entity's ~~financial~~ objectives and strategies;
  - (c) A description of the significant items, transactions and events that have affected the financial statements in the reporting period ~~An analysis of the entity's financial statements, including variances and trends;~~ and
  - (d) A description of its principal financial risk exposures, an explanation of changes in those risks since the last reporting date and its strategies for bearing or mitigating those risks. ~~Information about the entity's risks and uncertainties, including its risk management strategy.~~

22. The form and content of an entity's financial statement discussion and analysis will vary depending on the nature of the entity and the regulatory environment in which it operates.
23. When information is required to be included in the financial statements by relevant IPSASs, the financial statement discussion and analysis does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. The financial statement discussion and analysis includes cross-references to the financial statements where appropriate to avoid duplication of information.

#### *Overview of the Entity's Operations and Environment*

~~17B. An entity shall provide an overview of its operations and the environment in which it operates.~~

24. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information ~~is the starting point in assisting~~ assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior year, ~~about~~ relating to:
- (a) The entity's mission and vision;
  - (b) The entity's governance (e.g., legislative or regulatory structure, management structure);
  - (c) The entity's relationships with other entities with a focus on relationships that could significantly affect the entity's financial performance and position (e.g., funding arrangements);
  - (d) External trends, events and developments in the legal, regulatory, social, political, and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position and financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates); and
  - (e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

#### *Information about the Entity's ~~Financial~~ Objectives and Strategies*

~~18A. An entity shall disclose its financial objectives and strategies.~~

25. Financial statement discussion and analysis discusses the entity's ~~financial~~ objectives and strategies in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. Financial statement discussion and analysis also explains how the achievement of the entity's ~~financial~~ objectives (e.g., debt reduction strategy) will be measured and over what time period the achievement will be measured.
26. Financial statement discussion and analysis discusses significant changes in an entity's ~~financial~~ objectives and strategies from the previous period or periods.

*Analysis of the Entity's Financial Statements*

~~20A. An entity shall provide a description of its financial performance for the period and the significant events and transactions that have affected it.~~

27. Financial statement discussion and analysis describes the significant events and transactions that have affected the financial statements, without simply reiterating the information presented in the financial statements. Judgment is required in the identification of the significant events and transactions.

28. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact is disclosed. If financial performance measures that are not required or defined by IPSASs are included within financial statement discussion and analysis, those measures are defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs. In addition, narrative explanations of such illustrations are provided if necessary to faithfully represent the information.

29. Comparative information shall be disclosed in respect of the previous period for all amounts reported included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements discussion and analysis.

30. Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections.

31. ~~However, f~~Financial statement discussion and analysis should explain significant changes and trends in an entity's financial position and financial performance. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position and performance and changes in financial position and performance over a period of time.

32. When an entity is required or elects to make their approved budgets(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in financial statement discussion and analysis. When an entity elects to include this information in its financial statement discussion and analysis, it applies the guidance in IPSAS 24 to these disclosures.

~~26A. When an entity does not make its approved budget publicly available it is encouraged to include information in its financial statement discussion and analysis about significant positive and negative variances between actual results and the approved budget.~~

Financial *Risks and Uncertainties*

~~26B. An entity shall disclose:~~

- (a) ~~Its principal risk exposures;~~
- (b) ~~Changes in those risks since the last reporting date;~~
- (c) ~~Its strategies for bearing or mitigating those risks;~~

- (d) ~~Any underlying assumptions; and~~
  - (e) ~~The effectiveness of its risk management strategy.~~
33. Information about the entity's financial risks and uncertainties helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements) as well as expected outcomes. This information is fact-based, takes into account currently-known conditions and is neutral.
34. ~~The description of the principal financial risks facing the entity should cover both exposures to negative consequences and potential opportunities. Financial statement discussion and analysis provides useful information when it discusses the principal financial risks and uncertainties necessary to understand the objectives and strategies of the entity. The principal financial risks and uncertainties can constitute either a significant external or internal risk to the entity. Information about the entity's risks and uncertainties may include a discussion of such matters as a summary of the entity's investment policy, insurance coverage and other means of managing its risks, other controls intended to safeguard the entity's assets and environmental issues. It may also include the relevant legislation, regulation or body that sets the risk management policies for the entity.~~
35. A discussion of how the entity manages its financial risks helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position and financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate financial risk by transferring or sharing it, or through insurance.
36. A discussion of the financial risks the entity faces also provides relevant information to users about exposure or vulnerability to concentrations of financial risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.
37. Financial Risks and uncertainties may have a pervasive effect on the financial statements, therefore information relating to financial risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.

## Transition

38. **All provisions of this Standard shall be applied from the date of first adoption of this Standard.**
39. **An entity that has applied the transitional provision in IPSAS 1 to present only current period information in the financial statements to which accrual accounting is first adopted in accordance with IPSASs is permitted to omit the comparative information required by paragraph 23 from its financial statement discussion and analysis for that period.**

## Effective Date

40. **An entity shall apply this Standard to financial statement discussion and analysis covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 1, IPSAS 24 and IPSAS 30, *Financial Instruments: Disclosures* at the same time.**

41. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.

## Appendix A

### Amendments to Other IPSASs

#### IPSAS 1, *Presentation of Financial Statements*

A new paragraph is inserted after paragraph 21 as follows:

#### Components of Financial Statements

21. A complete set of financial statements comprises:

- (a) A statement of financial position;
- (b) A statement of financial performance;
- (c) A statement of changes in net assets/equity;
- (d) A cash flow statement;
- (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
- (f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

21A. Financial statement discussion and analysis is not a component of the financial statements. IPSAS XX (ED 47), *Financial Statement Discussion and Analysis* requires financial statement discussion and analysis to be published with the financial statements.

A new paragraph is inserted after paragraph 24 as follows:

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities that make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, *Presentation of Budget Information in Financial Statements*. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:
- The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
  - Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

24A. When an entity elects, under IPSAS 24, to explain, in financial statement discussion and analysis rather than by way of note disclosure, material differences between the budgeted and actual amounts identified in paragraph 24, it applies the guidance in IPSAS 24.

Paragraphs 27 and 28 are amended as follows:

## Overall Considerations

### Fair Presentation and Compliance with IPSASs

27. Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation of the financial statements requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs applicable to the financial statements. The application of these IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.
28. An entity whose financial statements comply with IPSASs applicable to the financial statements shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of those IPSASs.
- 28A. An entity can claim compliance with IPSASs applicable to the financial statements where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSAS XX (ED 47) because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 and (b) compliance with IPSAS XX (ED 47) is dealt with in that IPSAS.

Paragraph 62 is amended as follows:

### Identification of the Financial Statements

...

62. IPSASs apply to financial statements and financial statement discussion and analysis, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IPSASs from other information that may be useful to users but is not the subject of those requirements.

A new paragraph is inserted after paragraph 153D as follows:

### Effective Date

153E. Paragraphs 21A, 24A and 28A were inserted and paragraphs 27, 28 and 62 were amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply those amendments for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the

amendments to paragraphs 14, 19, 30 and 54A of IPSAS 24 and the amendments to paragraphs AG6 and 52A of IPSAS 30.

## **IPSAS 24, *Presentation of Budget Information in Financial Statements***

Paragraph 14 is amended as follows:

### **Presentation of a Comparison of Budget and Actual Amounts**

14. Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
- (a) The original and final budget amounts;
  - (b) The actual amounts on a comparable basis; and
  - (c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in the financial statement discussion and analysis published issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Paragraph 19 is amended as follows:

19. ~~Management~~ IPSAS XX (ED 47), *Financial Statement Discussion and Analysis* requires presentation of a financial statement discussion and analysis, operations review, or other public reports that provides commentary on the performance and achievements of the entity during the reporting period. It can include including explanations of any material differences from budget amounts, issued in conjunction with the financial statements. In accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements, unless (a) included in the financial statement discussion and analysis ~~or other public reports or documents issued in conjunction with the financial statements~~, and (b) the notes to the financial statements explain that this analysis identify the reports or documents in which the explanation can be found in the financial statement discussion and analysis. When an entity presents the actual-to-budget comparison in financial statement discussion and analysis, it applies the guidance in this Standard.

Paragraph 30 is amended as follows:

### **Changes from Original to Final Budget**

- ...
30. The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, a public sector entity will include in the notes to the financial statements or in its financial statement discussion and analysis a separate report issued before, in conjunction with, or at the same time as the financial statements, an explanation of changes between the original and final budget. That explanation will

include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. ~~Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements.~~ Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where disclosures are made in separate reports rather than in the financial statements, the notes to the financial statements will include a cross reference to the report.

**A new paragraph is inserted after paragraph 54 as follows:**

### **Effective Date**

**54A. Paragraphs 14, 19 and 30 were amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply those amendments for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the amendments to paragraphs 21A, 24A, 28A, 27, 28, 62 and 153E of IPSAS 1 and the amendments to paragraphs AG6 and 52A of IPSAS 30.**

### **Basis for Conclusions**

**Paragraphs BC4 and BC12 are amended as follows:**

BC4. Many governments and government entities that make publicly available their approved budget(s) already report actual against budgeted amounts in their financial statements. They also include an explanation of material differences between actual and budget (a) in notes to their financial statements, or (b) in financial statement discussion and analysis published with their financial statements ~~management discussion and analysis or similar reports~~, or (c) in budget out-turn or similar reports issued in conjunction with their financial statements. For these governments and government entities, comparisons of budget and actual amounts are generally made at the levels of oversight approved by the legislature or similar authority, and explanations of material differences are made where budgetary authority is exceeded. The IPSASB is of the view that this practice is appropriate, and has issued this Standard to reinforce the practice, and to require that it be adopted by all entities that make publicly available their approved budgets.

...

BC12. This Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued in conjunction with the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements, and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in financial statement discussion and analysis published with the financial statements, or a management discussion and analysis, operations review, budget

out-turn, or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

## **IPSAS 30, *Financial Instruments: Disclosures***

**Paragraph AG6 is amended as follows:**

### **Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)**

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as financial statement discussion and analysis ~~a management commentary~~ or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

**A new paragraph is inserted after paragraph 52 as follows:**

### **Effective Date**

52A. Paragraph AG6 was amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply that amendment for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the amendments to paragraphs 21A, 24A, 28A, 27, 28, 62 and 153E of IPSAS 1 and the amendments to paragraphs 14, 19, 30 and 54A of IPSAS 24.

## DRAFT IPSAS XX—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

### CLEAN VERSION

#### Objective

1. The objective of this Standard is to establish principles for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial statements.

#### Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting using IPSASs shall prepare and present financial statement discussion and analysis in accordance with this Standard. The reporting boundary for financial statement discussion and analysis shall be the same as that used for the financial statements.**
3. Financial statement discussion and analysis shall be published with the financial statements.
4. This Standard applies only to financial statement discussion and analysis. Financial statement discussion and analysis is not a component of the financial statements. IPSAS 1, *Presentation of Financial Statements*, sets out the requirements for the composition of financial statements.
5. This Standard does not specify the level of assurance (if any) to which financial statement discussion and analysis should be subjected.
6. **This Standard applies to all public sector entities other than Government Business Enterprises.**
7. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.

#### Identification of Financial Statement Discussion and Analysis

8. **Financial statement discussion and analysis shall be clearly identified, and distinguished from the financial statements and from other information.**
9. Separate identification of financial statement discussion and analysis enables users to distinguish:
  - (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs applicable to the financial statements;
  - (b) Financial statement discussion and analysis prepared in accordance with this Standard; and
  - (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.

## Reporting Period

10. **Financial statement discussion and analysis shall be presented at least annually and shall use the same reporting period as that used for the financial statements.**
11. IPSAS 1 requires financial statements to be prepared at least annually. For consistency, financial discussion and analysis shall also be presented at least annually using the same reporting period.

## Definition

12. **The following term is used in this Standard with the meaning specified:**

**Financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the factors that influenced them.**

**Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.**

## Key Principles of Financial Statement Discussion and Analysis

13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight on the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, transactions and events affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.
14. **Information in financial statement discussion and analysis shall meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).**
15. The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs. See Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.

## Content of Financial Statement Discussion and Analysis

16. **The content of financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.**

## Compliance with this IPSAS

17. **An entity whose financial statement discussion and analysis complies with this IPSAS shall make an explicit and unreserved statement of such compliance. Financial statement discussion and analysis shall not be described as complying with this IPSAS unless it complies with all the requirements of this IPSAS.**
18. An entity can claim compliance with this IPSAS where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSASs applicable to the

financial statements because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 of IPSAS 1 and (b) compliance with IPSASs applicable to the financial statements is dealt with in IPSAS 1.

19. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally-imposed regulations. Entities are encouraged to disclose information about compliance with any such requirements.
20. An entity cannot claim compliance with this IPSAS where it has made material departures from the requirements of this standard in order to comply with legislative, regulatory or other externally-imposed requirements.

## **Content**

21. **To the extent it does not replicate information in the financial statements, financial statement discussion and analysis shall include:**
  - (a) **An overview of the entity's operations and the environment in which it operates ;**
  - (b) **Information about the entity's objectives and strategies;**
  - (c) **A description of the significant items, transactions and events that have affected the financial statements in the reporting period ; and**
  - (d) **A description of its principal financial risk exposures, an explanation of changes in those risks since the last reporting date and its strategies for bearing or mitigating those risks.**
22. The form and content of an entity's financial statement discussion and analysis will vary depending on the nature of the entity and the regulatory environment in which it operates.
23. When information is required to be included in the financial statements by relevant IPSASs, the financial statement discussion and analysis does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. The financial statement discussion and analysis includes cross-references to the financial statements where appropriate to avoid duplication of information.

## *Overview of the Entity's Operations and Environment*

24. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior year, relating to:
  - (a) The entity's mission and vision;
  - (b) The entity's governance (e.g., legislative or regulatory structure, management structure);
  - (c) The entity's relationships with other entities with a focus on relationships that could significantly affect the entity's financial performance and position (e.g., funding arrangements);

- (d) External trends, events and developments in the legal, regulatory, social, political, and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position and financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates); and
- (e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

*Information about the Entity's Objectives and Strategies*

- 25. Financial statement discussion and analysis discusses the entity's objectives and strategies in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. Financial statement discussion and analysis also explains how the achievement of the entity's objectives (e.g., debt reduction strategy) will be measured and over what time period the achievement will be measured.
- 26. Financial statement discussion and analysis discusses significant changes in an entity's objectives and strategies from the previous period or periods.

*Analysis of the Entity's Financial Statements*

- 27. Financial statement discussion and analysis describes the significant events and transactions that have affected the financial statements, without simply reiterating the information presented in the financial statements. Judgment is required in the identification of the significant events and transactions.
- 28. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact is disclosed. If financial performance measures that are not required or defined by IPSASs are included within financial statement discussion and analysis, those measures are defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs. In addition, narrative explanations of such illustrations are provided if necessary to faithfully represent the information.
- 29. **Comparative information shall be disclosed in respect of the previous period for all amounts reported in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.**
- 30. Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections.
- 31. Financial statement discussion and analysis should explain significant changes and trends in an entity's financial position and financial performance. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position and performance and changes in financial position and performance over a period of time.
- 32. When an entity is required or elects to make their approved budgets(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of

budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in financial statement discussion and analysis. When an entity elects to include this information in its financial statement discussion and analysis, it applies the guidance in IPSAS 24 to these disclosures.

#### *Financial Risks and Uncertainties*

33. Information about the entity's financial risks and uncertainties helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements) as well as expected outcomes. This information is fact-based, takes into account currently-known conditions and is neutral.
34. The description of the principal financial risks facing the entity should cover both exposures to negative consequences and potential opportunities. Financial statement discussion and analysis provides useful information when it discusses the principal financial risks and uncertainties necessary to understand the objectives and strategies of the entity. The principal financial risks and uncertainties can constitute either a significant external or internal risk to the entity.
35. A discussion of how the entity manages its financial risks helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position and financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate financial risk by transferring or sharing it, or through insurance.
36. A discussion of the financial risks the entity faces also provides relevant information to users about exposure or vulnerability to concentrations of financial risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.
37. Financial Risks and uncertainties may have a pervasive effect on the financial statements, therefore information relating to financial risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.

#### **Transition**

38. **All provisions of this Standard shall be applied from the date of first adoption of this Standard.**
39. **An entity that has applied the transitional provision in IPSAS 1 to present only current period information in the financial statements to which accrual accounting is first adopted in accordance with IPSASs is permitted to omit the comparative information required by paragraph 23 from its financial statement discussion and analysis for that period.**

#### **Effective Date**

40. **An entity shall apply this Standard to financial statement discussion and analysis covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 1, IPSAS 24 and IPSAS 30, *Financial Instruments: Disclosures* at the same time.**

41. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.

## **Information Paper: Assurance Issues in relation to IPSASB Pronouncements**

**January 2013**

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## **Information Paper: Assurance Issues in relation to IPSASB Pronouncements**

**January 2013**

### **1. Reasons for preparing this Paper**

Having essentially completed its work to adapt relevant IFRS in developing a set of IPSASs for general purpose financial statements (GPFS), the IPSASB has now commenced specific projects that deal with general purpose financial reports (GPFR) in the following areas:

- Service performance information
- Long term sustainability of public finances
- Financial statements discussion and analysis

Following discussions as to the status and level of authority that shall attach to the future pronouncements in these areas at its meeting in December 2012, the IPSASB Chair requested from representatives of the audit profession information as to any potential assurance implications of various actions currently under consideration by the Board.

The IPSASB recognizes that the Board does not have the responsibility for decisions concerning assurance in relation to GPFSs and GPFRs, since such decisions fall within the remit of legislators in individual jurisdictions. Furthermore, in the absence of any statutory requirement assurance engagements may also be determined on a voluntary basis. Nevertheless, the IPSASB does wish to make informed decisions that take due account of any potential impacts its actions might have on the provision of assurance conclusions.

### **2. Brief overview of the IAASB's International Framework for Assurance Engagements**

The level of assurance that an auditor (or practitioner) seeks to obtain and the nature of the information being subjected to an assurance engagement determine the classification of assurance engagements. Assurance engagements in relation to historical financial information, including general and special purpose financial statements are reasonable assurance engagements termed "audits" that are covered in the ISAs, whereas assurance engagements in relation to such information are limited assurance engagements termed "reviews" that are covered in the ISREs. Assurance engagements other than audits and reviews are either reasonable or limited assurance engagements under ISAE 3000.

### **3. IPSASs as the financial reporting framework in an audit performed in compliance with ISAs**

The IAASB's suite of ISAs deals solely with audits of historical financial information and – as explained in ISA 200.2 – "ISAs are written in the context of an audit of financial statements by an auditor and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information." The ISA 200 - 700 series cover the audits of general purpose financial statements, which include GPFS prepared according to IPSASs. (The ISA 800 series are not relevant in this particular context. ISA 800 deals with complete sets of financial statements prepared in accordance with special purpose frameworks, ISA 805 with special considerations on individual statements or items, ISA 810 with summary financial statements.)

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Assurance engagements relating to the three GPFRs that the IPSASB is currently dealing with would not automatically fall under the ISAs for complete sets of financial statements. For example, future-oriented information in a report on long term sustainability of public finances does not constitute only historical financial information, which means that the ISAEs would apply to the prospective financial information, whereas the ISAs (including ISA 805) would apply to the historical financial information that are not complete sets of financial statements. Similarly, service performance reporting may extend beyond historical financial information...

### 4. ISA audit of GPFSs prepared according to IPSASs

The IAASB has defined the term “financial statements” in its Glossary of Terms as “A *structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.*” Currently, with the exception of the cash basis Standard, all IPSASs currently deal with GPFSs on an accruals basis. Thus, for auditing purposes, the financial reporting framework is currently termed IPSASs. As a consequence, an auditor’s report currently refers to financial statements having been prepared in accordance with International Public Sector Accounting Standards.

Indeed, the preconditions for an ISA audit stipulated in ISA 210.4 specifically include the use by management of an acceptable financial reporting framework in the preparation of the financial statements. Paragraph 6(a) of ISA 210 requires the auditor to determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. Paragraph A8 of ISA 210 cites the IPSASs promulgated by the IPSASB among the examples of financial reporting frameworks that are presumed to be acceptable in this context.

*If the IPSASB decided to require an additional GPFR become a component of the financial statements, this would result in a change to the GPFSs and to the financial reporting framework. As noted in the table in Section 5, there could be an impact on the auditability of the GPFSs as a whole.*

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### 5. IPSASB considerations as to level of authority to attach to these pronouncements

Subject to further consideration of any assurance implications, in its ongoing discussions the IPSASB is considering whether any of the above-mentioned pronouncements might be issued as a:

- mandatory IPSAS, prescribing the GPFR as an additional component of the GPFSS,
- mandatory IPSAS, dealing with a GPFR that is supplementary to, but not a component of, the GPFSS,
- mandatory standard for reporting, as distinct from accounting (e.g., IPSxxS), i.e. new suite of pronouncements
- conditional/voluntary IPSAS (IPSAS 24 approach), or
- non-authoritative pronouncement distinct from IPSASs (e.g., recommended practice guidance (RPG)).

Discussions of each of these options within the IPSASB have included the following assumed impact as well as audit and assurance considerations:

Pronouncement	Preliminary Assumption(s)	Audit and Assurance Consideration
A mandatory IPSAS prescribing the particular GPFR to be an “additional” component of the GPFSS	Ensure the preparation of the particular GPFR as part of GPFSSs, (involving revision of IPSAS 1) such that a PSE not preparing the “additional” component would be unable to claim its GPFS comply with IPSASs.  <i>In practice, jurisdictions could circumvent IPSAS 1.28 by re-defining the financial reporting framework to fit their own needs (as was the case of IFRS in the EU).</i>	ISA audits deal only with historical financial information. As explained below, depending on the nature of “additional” information to be included as part of the GPFSSs, an audit under the ISAs may no longer be feasible.  Unless all IPSASs are complied with the auditor would have to modify the auditor’s report.
A mandatory IPSAS dealing with a GPFR that is “supplementary” to, but not part of, the GPFSS	Ensure the preparation of the particular GPFR in addition to GPFSSs, such that a PSE not preparing the GPFR would be unable to claim full compliance with IPSASs.	The audit of the GPFSSs would not be affected, as the audit report would correspondingly be able to refer to GPFSSs prepared in compliance with “IPSAS 1-32”, “all IPSASs that apply to GPFSSs”, or similar <sup>1</sup> . Depending on various factors, the “supplementary”

<sup>1</sup> In order to exclude any IPSASs that did not relate to historical financial statements, the cross reference in paragraph A8 of ISA 210 would need to be changed to specify only those IPSASs which then relate to GPFSS alone.

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	<i>In practice, jurisdictions could require compliance solely to those IPSASs to which they have adhered in preparing the GPFSS (IPSASs 1-32) or GPFR(s) (IPSAS(s) XXXX), respectively. IPSASB could also decide to take this approach.</i>	GPFR may constitute other information pursuant to ISA 720 (see below).  Depending on the exact scope and nature of the “supplementary” GPFR, a separate audit or assurance engagement thereon may also be conceivable.
A mandatory standard for reporting as distinct from accounting (e.g., IPSxxSs)	Introduces a new “suite” of Standards that would allow PSEs to comply with IPSAS in preparing GPFSSs and to comply with the relevant IPSxxS if, and when, preparing a particular GPFR	No impact on the audit of GPFSSs  Depending on various factors, the “supplementary” GPFR may constitute other information pursuant to ISA 720 (see below)  Depending on the exact scope and nature of the “supplementary” GPFR, a separate audit or assurance engagement thereon may also be conceivable.
A conditional/voluntary IP-SAS	Allows flexibility to accommodate those PSE not required by law or regulation to prepare the particular GPFR.	No impact on the audit of GPFSSs  Depending on various factors, the “supplementary” GPFR may constitute other information pursuant to ISA 720 (see below)  Depending on the exact scope and nature of the “supplementary” GPFR, a separate audit or assurance engagement thereon may also be conceivable.
A non-authoritative pronouncement	Encourages but does not require PSEs to present the particular GPFR.	No impact on the audit of GPFSSs  Depending on various factors, the “supplementary” GPFR may constitute other information pursuant to ISA 720 (see below)  Depending on the exact scope and nature of the “supplementary” GPFR, a separate audit or assurance engagement thereon may also be conceivable.

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As the table indicates, the level of authority the IPSASB decides to attach to any particular pronouncement and its placement within IPSASB's pronouncements would only have audit implications if the "additional" GPFR were to be stipulated as being a component of the GPFs. As discussed below, it is the subject matter of individual pronouncements that will be relevant to any decision as to assurance requirements.

### 6. Auditor Responsibilities Relating to Other Information

The ISAs also deal with the auditor's responsibilities relating to certain "other information" (including a GPFR) beyond the GPFs. The extant ISA 720 deals with the auditor's responsibilities in relation to other information provided in documents containing the financial statements and auditor's report – i.e. information that itself is not subject to audit. This ISA requires the auditor to read the other information to identify any material inconsistencies with the financial statements. The basis for this requirement is the ethical requirement that an auditor should not be associated with misleading information – rather than an audit requirement. In practice, the type of information covered by ISA 720 is usually that contained in management reports, directors' reports and the like. Thus unless there is a specific additional audit requirement these types of GPFRs will be checked for inconsistencies with the financial statements – but not audited. It is likely that a report prepared according to the IPSASB's future pronouncement on FSDA would become subject to such consistency check, for the sole reason under the current ISA 720 that it would be included in a document containing audited financial statements and the auditor's report thereon. Thus whether the IPSASB determines that such a report should be dealt with in an IPSAS, other Standard or a RPG would be irrelevant to this. In some jurisdictions (e.g., Germany) management reports are specifically covered in the statutory audit. Germany, for example, has an additional auditing standard relating to this audit subject matter and specific mention also has to be made in the auditor's report of the fact that the management report is subject to audit and the auditor opinion on the management report is also expressed separately.

The IPSASB should also note that ISA 720 is currently being revised. The current Exposure Draft ISA 720 (Nov 2012) seeks to broaden the scope of what may constitute other information. If finalized in its present draft, ISA 720 would also include such other information as is included in a document issued in connection with the initial release of the financial statements and accompanying the financial statements and auditor's report and has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or financial reporting process. Under the proposed revisions, in addition to checking consistency with the financial statements an auditor would also be required to consider the consistency of other information with the auditor's understanding of the entity and its environment acquired during the course of the audit. It is thus possible that other GPFRs such as the one reporting long term sustainability of an entity's finances could, in future, also then fall under this standard if it meets the criteria for other information (i.e., contains the audited financial statements or accompanies them and has a primary purpose of providing commentary to enhance the users' understanding of the audited financial statements or financial reporting process).

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### 7. Conclusions

From an assurance viewpoint – unless the IPSASB determines that a particular GPFR should be a component of GPFs – the Board's decision as to the authority attaching to an IPSASB pronouncement is not relevant to the audit of GPFs. For example, it is conceivable that when in a particular jurisdiction the GPFs alone are subject to audit they would continue to be governed by IPSASs 1-32 and the audit report would then be able to identify the GPFs by reference to only IPSAS 1-32. Were an additional GPFR also to be presented in accordance with a further IPSAS (for illustrative purposes IPSAS X0) this might have to be considered by the auditor under ISA 720 as explained above. Alternatively there could be an assurance requirement – in which case another auditing or assurance Standard would be required. The level of authority of the pronouncement would not, in itself, determine whether and, if any, what type of assurance engagement would be possible or might be required.

The nature of the subject matter of a GPFR is highly relevant to the issue of assurance (see below).

#### Service performance information

Whilst reporting on service performance information is mainly historical, the fact that not only financial information is to be reported may also pose a challenge in terms of provision of an assurance service.

#### Long term sustainability of public finances

For GPFRs that do not report historical financial information neither ISAs, nor the current IAASB Standard, ISAE 3000 "Assurance engagements other than audits or reviews of historical information" would be applicable. (Aspects of ISAE 3400, would be applicable to the information that constitutes prospective financial information). It is conceivable that the IAASB may develop further assurance standards for specific application in future.

#### Financial statements discussion and analysis

In jurisdictions such as Germany, where the Lagebericht (management report that accompanies, but is not a component of, the financial statements) is also subject to statutory audit there are additional auditing standard(s) for this purpose..