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Dear Alan

## **Exposure Draft Consultation Response**

The Audit Commission welcomes the opportunity to comment on the IASB exposures of amendments to:

IFRS3: Business combinations

IAS27: Consolidation and separate financial statements;

IAS37: Provisions, contingent liabilities and contingent assets.

### *Background*

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our remit covers more than 11,000 bodies which between them spend nearly £180 billion of public money every year. Our work covers local government, housing, health, criminal justice and fire and rescue services.

### *The Commission's view*

In responding to these proposals, the Commission has focused on issues relevant to its remit. It is the Commission's view that, as far as is appropriate, all public sector bodies should seek to comply with relevant financial reporting standards and that, as a consequence, accounting directions and statements of recommended practice in the public sector should mirror those standards as closely as possible.

The Commission shares the ASB's view that implementation of the business combinations package should be delayed until the implications of the IASB proposals have been more widely evaluated through practical implementation.

In particular, the Commission has some reservations regarding the use of the acquisitions method in the public sector. In practice, many public sector business combinations do not involve arms length transactions between unrelated entities and are, in essence, mergers

underpinned by FRS6. We would welcome, therefore, recognition that in certain specified circumstances, the use of merger accounting would continue to be appropriate.

The Commission also supports the view expressed by the ASB that exit values that are observable market prices are not the only basis on which to reach a fair value.

Yours sincerely

Mike Langley  
*Functional Lead (Development)*