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Ms Liesel Knorr
Technical Director
International Accounting Standards Committee
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Room B359
Reference MJS/sj
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Dear Ms Knorr,

PROPOSED INTERNATIONAL ACCOUNTING STANDARD - IMPAIRMENT OF ASSETS

We are pleased to respond to the invitation to comment on Exposure Draft 55. Our comments concentrate on those questions that are of particular interest to us as auditors of various UK government and international bodies, but I hope that some of them will have a wider relevance.

Question 1

The NAO support the first approach suggested (higher of net selling price and value in use). This is particularly relevant to the public sector in the UK where many of the assets held by entities are of a very specialised nature for which there is no ready market.

Question 2

We agree that present value techniques should be used to measure recoverable amounts.

Question 3

We agree that the definition in paragraph 5 is just as applicable to assets held for disposal as opposed to continuing use.

Question 4

The criteria for recognition of impairment losses seem to be appropriate, although the concept of cash generating units may be difficult to apply in the public sector. I discuss this further in our comments on questions 11 -14 below.

Questions 5 and 6

The proposals on reversals of impairments appear reasonable to us.

Questions 7, 8 and 9

We have no particular comments to make, and agree with the various exposure draft proposals.

Question 10

The proposal on the use of a discount rate is welcome but it may well be that the UK Treasury would wish to set a standard discount rate for all of UK central government sector bodies.

Questions 11 to 14

In the public sector, many assets are held by bodies which do not charge for their services. Alternatively they may charge fees but deliberately choose not to recover their costs in full. In either case the concept of cash-generating units may prove difficult, if not impossible, to apply. The solution may well be that an alternative means of assessing recoverable amounts will have to be devised for use in the public sector.

Questions 15 to 22 and further comments

We have no comments on questions 15 to 22. We would note, however, that in the UK public sector application of the alternative accounting rules, ie revaluation, is the norm. With this in mind we are not convinced that all impairments of revalued fixed assets should necessarily be recognised through the statement of total recognised gains and losses (ie as downward revaluations) until the carrying value of the asset falls to depreciated historic cost. It may be more appropriate for impairments that relate to diminished service potential to be treated as akin to depreciation and taken to the income and expenditure account.

I hope that these comments will be of some use to the Committee and look forward to the publication of the standard in due course.

yours sincerely
Martin Sinclair

MARTIN SINCLAIR
Director, Financial Audit