



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

529 Fifth Avenue, 6th Floor
New York, NY 10017
T +1 (212) 286-9344
F +1 (212) 286-9570
www.ifac.org

Agenda Item

5

Date: May 23, 2012
Memo to: Members of the IPSASB
From: Annette Davis and John Stanford
Subject: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

Objective of this Session

- To **discuss** a high level overview of responses received to Exposure Draft (ED) 46, Proposed Recommended Practice Guideline (RPG), *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*, and highlight some further issues prior to more detailed analysis of the responses at the September 2012 meeting.

Agenda Material

- 5.1 List of Respondents
- 5.2 Summary of Respondents by Region, Function and Language
- 5.3 Responses 1–36

Background

1. ED 46 was issued in October 2011 with comments requested by February 29, 2012. As at May 23, 36 responses had been received. Any further responses will be circulated prior to the June 2012 meeting or tabled at the meeting. A *List of Respondents* is in Agenda Paper 3.1 and the responses themselves are in Agenda Paper 3.3.

Purpose of this Session

2. The purpose of this agenda session and the agenda papers is to (1) provide details of the number of responses, their geographical origin, function and language (native/non-native English speakers) and (2) provide a preliminary Staff view on the some of the significant points in the responses.

Overall Summary

Broad Support for Proposals in ED 46

3. Overall there seems to be broad support for ED 46. Over half the respondents (2–8, 10, 12, 15, 18–22, 25, 31–33 and 35) indicate support for the proposals in ED 46. Many of these respondents provided comments on how to improve the proposals in ED 46. A further 11 respondents (1, 11, 14, 16–17, 24, 27–30 and 36) did not express an overall view. However, their comments on how to improve on the proposals in ED 46 suggest a generally positive view of the ED.

4. Three respondents (23, 26 and 34) expressed strong opposition to ED 46 and a further two respondents (9 and 13), whilst not explicitly opposing the ED, expressed mainly negative views. These five respondents are all Canadian provinces and all are preparers. Most of these respondents (13, 23, 26 and 34) have particular concerns that the characteristics of reporting on the long-term sustainability of a public sector entity's finances (LTFS Reporting) are outside the traditional scope of accounting and auditing and, consequently, such a report is not an accounting document. These respondents point out that LTFS Reports are usually prepared by economists rather than accountants. These responses will be considered further in the detailed analysis of responses to be prepared for the September 2012 meeting.
5. The preliminary view of Staff is that the overall positive tenor of the responses indicates that the IPSASB should continue with this project and develop ED 46 into a final pronouncement.

Non-Mandatory Application versus Mandatory Application (the Alternative View)

6. ED 46 was issued as a proposed RPG because, at this stage in the development of LTFS Reporting, the IPSASB considers it would be premature to issue an authoritative pronouncement and also because the IPSASB wants to encourage innovative reporting. ED 46 included an Alternative View which proposes that the entities that prepare reports in accordance with IPSASs should be required to present fiscal sustainability information within general purpose financial statements, including note disclosures, or in a separate general purpose financial report.
7. Almost half of the respondents (2–4, 6–7, 9–10, 12, 19, 23, 26, 30–32 and 35) support the voluntary application of this RPG. Another 15 respondents (11, 13–14, 16–18, 20, 22, 24–25, 27–29, 33 and 34) did not explicitly mention whether they support the voluntary nature of the proposals in ED 46.
8. Two respondents (5 and 15) consider that the proposals in ED 46 should be mandatory for some entities. Respondent 5 supports mandatory application for the general government sector (GGS) or the highest consolidated level of an entity, and respondent 15 supports mandatory application for what it terms “sovereign entities.” A slightly different view is taken by respondent 21 who supports the issuance of mandatory broad principles together with a non-mandatory best practice guideline.
9. Two respondents (8 and 36) agree with the Alternative View in ED 46 that the proposals should be mandatory. In addition, respondent 1 considers that the proposals should be mandatory if LTFS Reporting is considered to be “similar to the “going concern” criteria in IFRS for commercial entities.” Respondent 8 clearly agrees with the Alternative View in the Annex to its response but this statement is inconsistent with the point in the accompanying letter that issuing a guideline “seems a very practical way to push ahead in this area.”
10. Based on this analysis, Staff considers that the current proposed status of ED 46 as a RPG is appropriate. Confirming this view will be a key issue for the September 2012 meeting.

Further Issues

11. Staff has identified three further issues outside of the Specific Matters for Comment (SMCs) that a number of respondents raised:
 - (a) To which entity should the proposed RPG apply;

- (b) The position of the LTFS Report relative to general purpose financial statements (hereafter, the financial statements); and
- (c) Audit and assurance.

To which Entity should the Proposed RPG apply?

- 12. Eleven respondents (3–5, 9, 12, 19, 21, 30, 32, 34 and 35) comment on the level of entity to which the proposed RPG applies. A range of views is expressed from advocating application only at the national level (e.g., respondents 12 and 32) to permitting application to components or segments of an entity (respondent 35). One respondent (12) considers that the final RPG should include a simpler approach for sub-national entities.
- 13. In developing the ED the IPSASB initially considered the view of the Task Force that the scope of should be restricted to consolidated national and whole-of-government levels. At one stage of development it was also suggested, primarily on cost-benefit grounds that the RPG should not apply to controlled entities. It was decided that the ED should not be prescriptive about the type of entities to which the guidelines should apply and that its focus should be on user needs. Given the range of responses, Staff considers this issue needs further analysis.

Position of LTFS Report Relative to Financial Statements

- 14. Eleven respondents (2, 6–7, 10–12, 15, 19–20, 32 and 35) raise issues relating to the position of a LTFS Report relative to the general purpose financial statements (financial statements). All of these respondents consider that LTFS Reports are outside the scope of the financial statements, with two further respondents (19 and 35) considering that these reports are partially outside of the scope of GPFs. Several of these respondents request that the final RPG clarifies that LTFS Reports are separate from the audited financial statements and do not form a part of the financial statements.
- 15. The ED was silent on where information on long-term fiscal sustainability should be reported, restricting itself to a comment in the introductory material preceding the Guide for Respondents that “The objective of this Exposure Draft (ED) of a Recommended Practice Guideline is to provide guidance on how to supplement the statements of financial performance and financial position and meet the objectives of financial reporting—accountability and decision-making—by presenting projections of inflows and outflows and complementary information on an entity’s projected long-term fiscal sustainability.” The Alternative View was more informative in indicating that entities “should be required to present fiscal sustainability information within general purpose financial statements, including note disclosures, or in a separate general purpose financial report.” Given the range of responses, Staff considers the issue of the position and relationship of the LTFS Report relative to the financial statements needs further analysis.

Audit and Assurance

- 16. Seven respondents (2, 9–13 and 24) expressed a range of views as to whether or not LTFS Reports could or should be audited. These respondents consider that the final RPG needs to be much clearer on audit and assurance expectations.

17. An intermediate draft of the Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*,¹ included a separate section on Audit and Assurance. Following considerable discussion it was decided that audit and assurance should be addressed in a broader sub-section on the Reliability of Projections. This sub-section considered a range of approaches that entities might take to enhance the reasonableness and realism of projections. These included an audit or assurance engagement and other approaches such as peer review. This approach reflected the IPSASB's view that the need for, level of, and extent of, assurance is a matter for preparers to form a judgment on in conjunction with their auditors, taking into account the needs of users. The RPG broadly follows this approach.
18. Staff notes that International Auditing and Assurance Standard Board (IAASB) issued proposed ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* in April 2011 and is developing this document. ISAE 3000 (Revised) deals with requirements and guidance on assurance engagements, other than audit or reviews of historical financial information. The IAASB has also started to consider the assurance implications of developments such as integrated reporting and new technology.
19. Staff further notes that currently the Basis for Conclusions (BC) does not discuss the IPSASB's approach to audit or assurance and that, whatever view is taken if and when the RPG is further developed, the BC needs to provide details of the IPSASB's approach and on audit and assurance and the rationale for that approach. If Members think that audit and assurance issues should be addressed in more detail in the RPG, staff propose to seek the views of IAASB staff on whether ISAE 3000 is capable of being applied effectively to long-term fiscal sustainability information.

Next Steps

20. At the September 2012 meeting Staff will present a summary and collation of responses, an analysis of the responses to the three SMCs and a further analysis of the issues listed above and other issues raised by respondents.

¹ Published in November 2009 with a consultation period that expired on April 30, 2010.

ED 46, REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES LIST OF RESPONDENTS

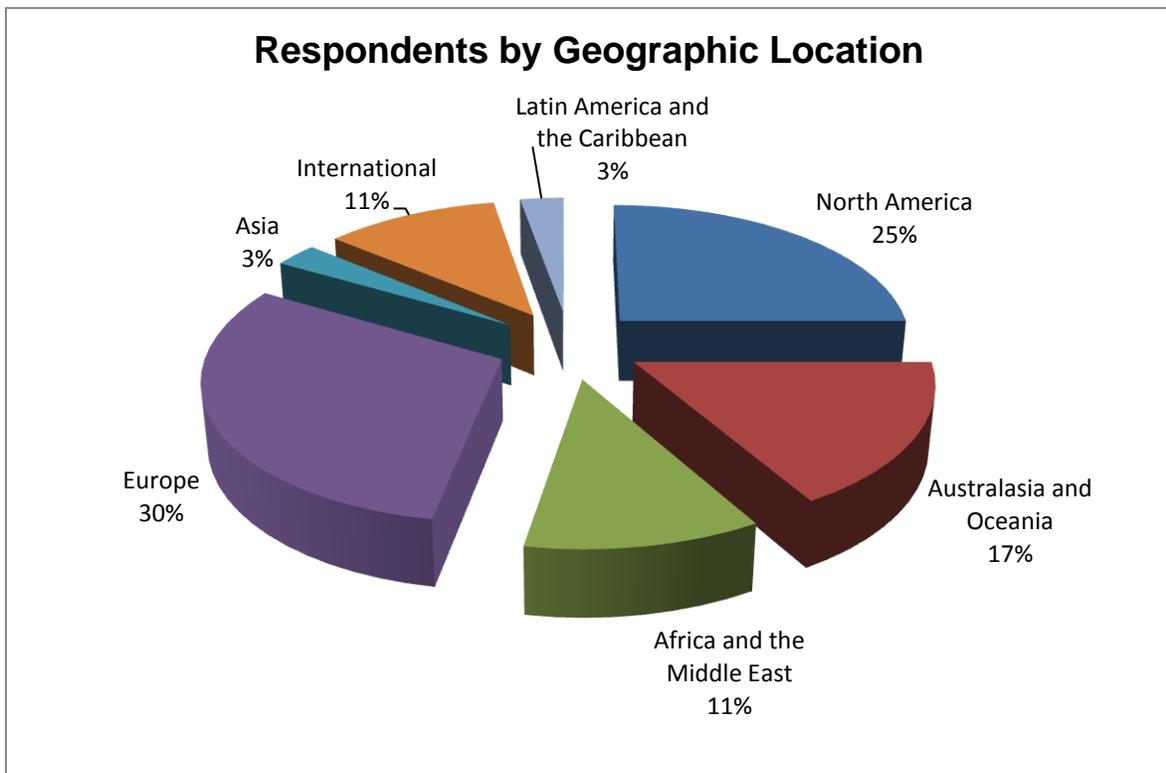
Response #	Respondent Name	Country	Function
001	The International Consortium on Governmental Financial Management (ICGFM)	International	Other
002	Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)	Switzerland	Standard Setter/Standards Advisory Body
003	New Zealand Accounting Standards Board (NZASB)	New Zealand	Standard Setter/Standards Advisory Body
004	Staff of the Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
005	Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA)	United Arab Emirates	Standard Setter/Standards Advisory Body
006	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
007	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
008	The World Bank	International	Other
009	Comptroller's Division of the Province of Manitoba	Canada	Preparer
010	Institut der Wirtschaftsprüfer (IDW)	Germany	Member or Regional Body
011	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
012	The Public Sector Committee of the Institute of Chartered Accountants of Scotland (ICAS)	UK	Member or Regional Body
013	Office of the Provincial Controller Division of the Ministry of Finance Ontario	Canada	Preparer
014	The Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
015	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)	USA	Other
016	Staff of the Accounting Standards Board	UK	Standard Setter/Standards Advisory Body
017	Denise Silva Ferreira Juvenal	Brazil	Other

Response #	Respondent Name	Country	Function
018	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
019	Conseil de normalisation des comptes publics (CNOCP)	France	Standard Setter/Standards Advisory Body
020	Cour des comptes	France	Audit Office
021	Ernst & Young	International	Accountancy Firm
022	United States Government Accountability Office (GAO)	USA	Audit Office
023	Provincial Government of Newfoundland and Labrador	Canada	Preparer
024	Institute of Registered Auditors Belgium (IRE)	Belgium	Member or Regional Body
025	KPMG IFRG Limited	International	Accountancy Firm
026	Ministry of Finance Québec	Canada	Preparer
027	New Zealand Treasury	New Zealand	Preparer
028	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
029	Association of Local Government Auditors (ALGA)	USA	Audit Office
030	Direction du Budget	France	Preparer
031	Joint Accounting Bodies	Australia	Member or Regional Body
032	Direction générale des finances publiques (DGFIP)	France	Preparer
033	HM Treasury	UK	Preparer
034	Province of British Columbia	Canada	Preparer
035	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
036	Staff of the Governmental Accounting Standards Board (GASB)	USA	Standard Setter/Standards Advisory Body

ED 46, REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES SUMMARY BY REGION, FUNCTION AND LANGUAGE

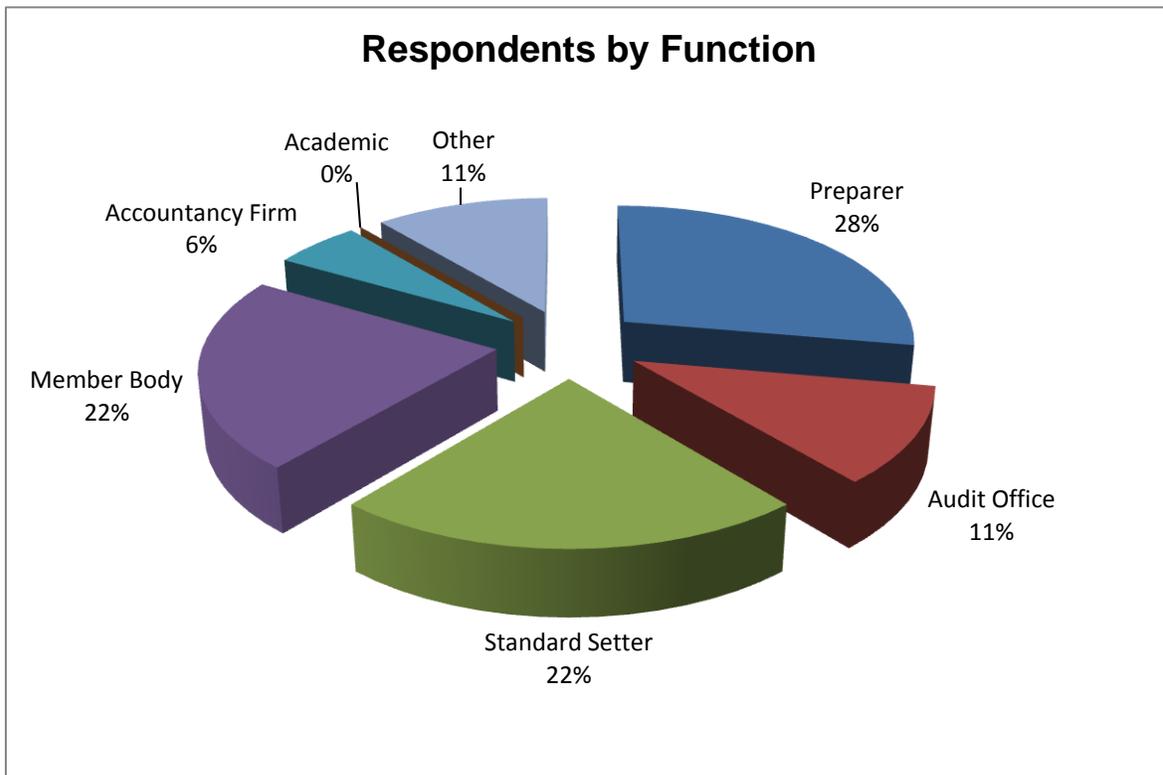
Geographic Breakdown

Location	Response Number	Total
Africa and the Middle East	4, 5, 11, 28	4
Asia	14	1
Australasia and Oceania	3, 6, 7, 27, 31, 35	6
Europe	2, 10, 12, 16, 18, 19, 20, 24, 30, 32, 33	11
Latin America and the Caribbean	17	1
North America	9, 13, 15, 22, 23, 26, 29, 34, 36	9
International	1, 8, 21, 25	4
Total		36



Functional Breakdown

Function	Response Number	Total
Preparer (Ministry of Finance or similar)	7, 9, 13, 23, 26, 27, 30, 32, 33, 34	10
Audit Office	6, 20, 22, 29	4
Standard Setter/Standards Advisory Body	2, 3, 4, 5, 16, 19, 35, 36	8
Member Body (National or Regional)	10, 11, 12, 14, 18, 24, 28, 31	8
Accountancy Firm	21, 25	2
Academic		–
Other	1, 8, 15, 17	4
Total		36



Linguistic Breakdown

Language	Response Number	Total
English speaking	3, 4, 6, 7, 9, 12, 13, 15, 16, 18, 22, 23, 27, 28, 29, 31, 33, 34, 35, 36	20
Non-English speaking	2, 5, 10, 14, 17, 19, 20, 24, 30, 32	10
Combination	1, 8, 11, 21, 25, 26	6
Total		36

