

February 29, 2012

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Dear Ms Fox,

**Re: Exposure Draft 46: Proposed Recommended Practice Guideline:  
Reporting on the Long-term Sustainability of a Public Sector entity's  
Finances**

Following the submission of comments on the Consultation Paper: Reporting on the Long-term Sustainability of Public Finances on April 30, 2010, the IDW appreciates the opportunity to now comment on the draft Recommended Practice Guideline (RPG) mentioned above and would like to submit its comments as follows:

*General Support*

Given the widespread public interest in the challenges currently facing many central governments and other public sector entities throughout the world, the IDW continues to support the IPSASB encouraging public sector entities to prepare, firstly as a basis for informed decision making, and potentially to provide to their stakeholders, information on the extent of the challenge they face in maintaining a sustainable fiscal path.

We agree that, given the fact that the form and content of long-term fiscal sustainability reporting is still evolving, it would not be appropriate currently for the IPSASB to attempt to prescribe a rigid approach, i.e., to develop a Standard.

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB CPA;  
Manfred Hamannt, RA

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At the same time, we also see a need for encouraging consistency at an international level in this area. The IPSASB would seem to be the logical body to adopt such a role. We therefore support the development of this RPG, which allows a high degree of judgment on the part of preparers, as opposed to an authoritative Standard at this point in time.

#### *Authority of the Recommended Practice Guideline*

We agree that it is in the IPSASB's interest to encourage application with the RPG. However, we also believe there is a need to discourage public sector entities from "falsely" claiming compliance. Accordingly, we would like to suggest the last sentence of paragraph 2 be amended to read as follows: "As part of reporting on its long-term fiscal sustainability an entity that has fully complied with all or essentially all of this RPG should clearly state that it has followed this RPG and, where relevant, disclose where it has departed from the RPG and explain why such a departure was necessary. In other cases an entity should not claim compliance with this RPG."

#### *Clarification of Recommended Practice and other Considerations*

Recommended Practice Guidelines commonly differ from Standards in that they constitute specific practice that is recommended, as opposed to being required. In contrast, in respect of certain aspects this draft RPG does not "recommend" specific practice, but instead provides a discussion of issues that the preparer will need to consider (e.g., relating to presentation, time period to be covered, frequency of reporting). In other cases, the RPG does put forward more precise recommendations but does not use consistent terminology in so doing. For example, the RPG sometimes states what the entity *should* report in terms of content and accompanying information, sometimes it indicates that *it is helpful to provide* certain information, *consideration can be given to providing*, it is *important that users are made aware*, or even that *entities are advised to disclose*. In our opinion, consistent use of language is preferable to enable preparers to differentiate appropriately between those areas where the IPSASB intends to make a firm recommendation and those where preparers themselves need to weigh up the best way to approach a particular issue.

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#### *Assurance Issues*

We would like to suggest redrafting paragraph 51 for a number of reasons. Firstly, assurance by an external auditor can never “enhance the reasonableness and realism of projections” as the proposed wording implies. Assurance engagements serve to enhance the credibility of information, as the practitioner expresses an opinion from which readers then derive a degree of comfort. Secondly, not all information is suitable such that an assurance engagement would be meaningfully.

As future projects undertaken by the IPSASB move away from reporting of historical information, the Board will need to bear in mind the impact of such issues on the QCs identified in its own Conceptual Framework, and also related assurance issues.

#### *Defining the Subject matter Information*

There does not appear to be consistency in terms used. Taking the first page as an example, we note that the title of the RPG speaks of “long-term sustainability of an entity’s finances”, as does paragraph 1, the first sentence of paragraph 2 and paragraph 5. In contrast, the second sentence of paragraph 2, paragraphs 3, and 4 and the definition in paragraph 7 the term “long-term fiscal sustainability” is used. These terms are used seemingly interchangeably throughout the RPG. Indeed, BC4 merely states that the title was “subsequently re-termed” without further discussion as to reasons or implications, if any. To avoid unnecessary confusion, we suggest a single term be used throughout the RPG wherever the same meaning is intended. Were distinct meanings intended, both terms would need to be defined.

#### *Delineation of information on long-term fiscal sustainability from information provided by general purpose financial statements – Type of Pronouncements*

Paragraph 1 explains that reporting on the long-term sustainability of an entity’s finances provides information on the impact of current policies and decisions made at the reporting date.... Paragraph 3 explains that all an entity’s projected flows are included in the scope of this RPG (i.e., the entire entity is depicted – no cherry picking). Paragraph 50 explains that the projections are not forecasts ... actual cash flows will differ from projections. In our view, these three aspects are all key to an understanding of the subject matter of reports prepared in accordance with this RPG and should be made clear to readers within the

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objective section of the RPG. Indeed, as the projections are not even aimed at fulfilling the role of a forecast, it seems to us that describing the information portrayed in such reports as indicative might be more appropriate than describing it as prospective.

We had previously expressed concern at the way the consultation paper had referred to the potential of general purpose financial reports GPFRs to “enhance” the information provided in the traditional general purpose financial statements GPFs. We therefore welcome the discussion in BC5, which indicates that information on prospective inflows and outflows may be needed by users to “supplement” information on the entity’s financial position in the financial statements. Indeed, by its very nature prospective or indicative information, which is based on assumptions and predictions as to future events or conditions, cannot fulfill the role of historical information. We therefore consider it extremely important for the IPSASB to forge a clear distinction between those of its pronouncements relating to the GPFs and those relating to different types of GPFRs. This could be achieved, for example, by using different terminology or names for different suites of standards. Accordingly, in our view, were this RPG to become a more authoritative Standard at some point in the future, it should not form part of the suite of IPSASs applicable solely to GPFs, but form part of a separate suite of GPFRs.

There are also significant audit implications underpinning this proposal, not least whether and what degree of assurance might be meaningfully obtained on information that is of a prospective or indicative nature. In addition, information of such long-term nature will not be useful unless it is sufficiently reliable, any sensitivity analysis not fairly presented, since there is potentially an incentive for entities to “defend” their own policies in presenting the best picture possible.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

Klaus-Peter Naumann  
CEO

Gillian Waldbauer  
Technical Manager

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28 February 2012

Dear Sir/Madam

**Exposure Draft (ED) 46: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

*General remarks*

The recent global financial events clearly demonstrate the need for transparent and credible reporting on long-term fiscal sustainability (LTFS) by public sector entities, and we welcome the opportunity to comment on the on the above Consultation Paper.

Our key remarks are that

- a) the Recommended Practice Guideline (RPG) defined in ED 46 should take into account the need for a clear delineation of the scope of general purpose financial reports (GPFRs) as currently espoused in the developing IPSASB Conceptual Framework;
- b) the presentation approach adopted and related periodicity of reporting for LTFS reporting should, in accordance with paragraph 7 of the ED, be flexible, whilst allowing for annual content updating;
- c) the guidance under paragraph 23 should be revisited since whilst some liabilities and assets in the statement of financial position may not be settled for extended periods of time and hence do not address short term solvency; and
- d) the responsibility of the auditor with respect to reporting on LTFS should be explicitly clarified.

**Specific Matter for Comment 1**

*Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.*

We agree with the characteristics set out in paragraph 15 and further clarified in the subsequent paragraph. However, whilst there may be users of information on LTFS for individual controlled entities, a consideration of the cost benefit at such entity vis-a-vis LTFS reporting at the level of

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controlling entity should be included in the RPG. Generally, a controlling entity should determine the relevance of reporting on the controlled entity's LTFS.

### **Specific Matter for Comment 2**

*Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?*

We in principle agree with the “dimensions” of LTFS. Ultimately, LTFS reporting should clearly demonstrate the reporting entities’ positive or negative contribution to the larger public sector and economic system, such as national economic or service delivery plans. Accordingly, the approach adopted by an entity for reporting (narrative or otherwise) should reflect the reasonableness and realism of the projections of the relevant larger economic system.

### **Specific Matter for Comment 3**

*Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?*

Similarly, we in principle agree with the guidelines on disclosure of principles and methodologies and wish to point out that any key assumptions relating to LTFS are based on inherently uncertain information and projections should take into account both credible current and future policy factors as defined in the ED.

Thank you.



# REPORTING ON THE LONG TERM SUSTAINABILITY OF A PUBLIC SECTOR ENTITY'S FINANCES

RESPONSE FROM THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
SCOTLAND TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARDS BOARD

29 February 2012

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## Introduction

The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) consultation paper "Reporting on the Long Term Sustainability of a Public Sector Entity's Finances" (exposure draft 46). The Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.

The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## Key points

We support the principle of providing users with a forward looking view of an entity's financial position, highlighting vulnerabilities and strengthening the accountability for decisions whose impact is beyond the financial year end.

We also support:

- A principles based approach and a flexible framework for disclosure of information
- The status of recommended practice, for voluntary adoption, and
- Efforts to ensure consistency through sharing projections prepared by other bodies (para 18).

We do however have concerns in a number of areas. The preparation and public reporting of projections appears most relevant at the national level. The publication of this information in financial statements needs to be user driven, however there is not sufficient evidence that users exist at the sub-national level out with major central government areas.

The criteria for determining whether users exist is too wide ranging and an alternative principles based approach is suggested in our response to "specific matter for comment 2". Further differentiation between national and sub-national levels is needed to avoid over burdening smaller organisations.

For sub-national levels a forward looking review of fiscal sustainability is useful however it is potentially a complex and significant additional workload, particularly at the entity level as they may not be accustomed to gathering the data for reporting and testing projections. The balance of information required and resource implications for implementation are important considerations, especially in the current economic climate. We believe that a one-size fits all Recommended Practice Guide (RPG) approach for such a wide variety of national and sub-national organisations is likely to have implementation difficulties and believe that an alternative simpler approach for smaller entities to retain the forward looking principle but reduce the complexity would be more effective and less costly to implement.

The location for this information is not specified. Whether it is within the financial statements, annual report or a separate Long Term Fiscal Sustainability (LTFS) report would impact on the appropriate level of detail and likely user. It would be helpful if the expected location could be clarified.

The reasonableness of LTFS is an area subject to risk given its reliance on projections, assumptions and a longer term horizon. Further details on audit and assurance arrangements to validate the robustness of the projections and assumptions are required.

### **Specific Matter for Comment 1**

**Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.**

The proposed scope could be interpreted to include all public sector entities. There is insufficient evidence that users exist for this information in financial statements for all such entities. It is agreed that the most relevant body is at the national level for example, the Office of Budget Responsibility in the UK who prepare the national LTFS reports.

This RPG should clarify if the prime audience is external (accountability to the public, to inform other government bodies) or internal (to improve longer term management financial planning and impact assessment) as this affects the level of detail required. Some entities may produce elements of the projections for internal management purposes, not publication. This RPG could also inform the development of good practice for internal reporting.

The characteristics to identify whether users exist are wide-ranging and likely to target more organisations than those which may actually have users, for example:

- The characteristic at 15(a) – this would apply only to the national level (for example, the UK Parliament as having significant tax-raising powers) whereas 15(b) swings to the other end of the spectrum.
- The characteristic at 15(b) “powers to incur debt” - many organisations can incur overdrafts. The expectation is that debt would include overdrafts but this needs clarified. Not all public sector entities have powers to raise debt (and may have limits to their overdraft facilities) however, they may draw down cash from central government and therefore have an impact on wider public finances so exclusion based on debt may not be appropriate.
- The characteristic at 15(c) needs further clarification on how this would be interpreted in practice, for example does it mean wide discretion in terms of the range and level of services the entity can provide?

The identification of a suitable user definition is complex. Instead of using 3 characteristics it is suggested that the RPG provides examples of probable users but the organisation should take responsibility for identifying users. For consistency with the “comply or explain” approach, the organisation should explain who those users of projections are along with their projections or alternatively, why users for this information do not exist and therefore why it is not appropriate to report long-term fiscal sustainability.

### **Specific Matter for Comment 2**

**Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?**

The three dimensions “fiscal capacity”, “service capacity” and “vulnerability” are appropriate and useful. We suggest replacing the term “fiscal capacity” in an international document with “revenue capacity” to recognise that some organisations can generate revenue through charges & sales, not just taxation.

Public sector net debt (public sector financial liabilities net of liquid financial assets) as a key target indicator of fiscal sustainability is a national indicator. The proposal to use net debt as a % of total revenues at the sub-national indicator is not consistent with normal entity/corporate ratio analysis of gearing levels which would be based on total debt (all borrowings + overdraft)/ total assets. Total debt may provide a more transparent and complete picture; for example to ensure Private Finance Initiative (PFI) liabilities (or their equivalent) are included, being a significant future cost.

As part of “service capacity” we suggest introducing references to recognise the impact of planned efficiencies on service capacity, as this is currently a high profile factor on future delivery for various governments.

Highlighting vulnerability and variable funding dependencies is informative and may help to demonstrate the effectiveness of organisations actions to mitigate their risk of vulnerable revenue streams, if reviewed over time and accompanied by a narrative explanation.

The definition provided for “vulnerability” is narrow. Vulnerability should form part of a more comprehensive forward looking risk analysis as funding dependencies although important, are not the only factor which can affect future fiscal sustainability. Other examples include political changes, restructures, the economy and rate movements. We believe this should be communicated through a supporting narrative explanation.

Where consolidated or whole of government accounts exist, this is a useful source for identifying significant liabilities which may have longer term impacts and should be included in a national LTFS report.

Commentary on an entity’s future prospects helps to improve accountability for decision makers and is consistent with other financial reporting developments as well as previous ICAS consultation responses such as “*Accounting for Public Service – Towards a New Reporting Framework*”<sup>1</sup>, “*Sharma Going Concern*”, “*BIS Narrative Reporting*”<sup>2</sup> and developments outlined in the International Integrated Reporting Council Discussion Paper on Integrated Reporting.

For example, “*Accounting for Public Service – Towards a New Reporting Framework*”, states that too much reporting is focused on outputs rather than outcomes. The concern is:

*“There is currently a democratic deficit in accountability, because the reporting framework simply does not address the extent to which we are moving towards the achievement of these outcomes [which politicians are elected on] and therefore accountable representatives cannot be held accountable for this”.* (para 1.7.1, page 20)

The level of need, detail and complexity will vary significantly between national and sub-national level entities. A one-size fits all RPG approach for such a large spread of organisations is likely to have implementation difficulties and be of questionable cost benefit. A two or three-tier approach to reflect different sizes and types of public sector organisations would be more appropriate. Although the proposals may be more appropriate at the national level, our preferred approach for public reporting at the entity level is to align with current narrative reporting developments for a strategic and targeted management narrative report which includes a forward looking evaluation and risk assessment rather than a financial model.

Further guidance on streamlining and tailoring to organisation types would help to align this Recommended Practice Guide (RPG) with current good practice developments to make financial statements and narrative reporting shorter and more focused on the important issues. This should remain at a strategic high level; a type of exception reporting which assumes the status quo for ‘x’ years except for probable changes with a significant impact in certain areas such as policy changes and/or the probability of movement in key assumptions. The RPG can outline suggested focus areas.

Greater emphasis is also needed on impact and materiality to ensure that effort is focused only on what matters most and to reduce unnecessary effort. For example, only key activities with significant impact and/or likelihood of fluctuation should be considered for forecasting.

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<sup>1</sup> <http://icas.org.uk/search-site/?jump=true&txtSearch=%2fsite%2fcms%2fcontentCategoryView.asp%3fcategory%3d4376>

<sup>2</sup> [http://icas.org.uk/Technical\\_Information\\_and\\_Guidance/Business\\_Issues.aspx](http://icas.org.uk/Technical_Information_and_Guidance/Business_Issues.aspx)

**Specific Matter for Comment 3****Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?**

One of the most significant points is the assumption about current and future policy. The RPG says this will be disclosed but the impact could be substantial, to the extent it could mean that the information is of limited or no value.

It is suggested that the LTFS report would be more meaningful and a more comprehensive assessment of sustainability if it were accompanied by a narrative risk assessment. As mentioned in "specific matter for comment 2", factors impacting on vulnerability can be wider than funding dependencies. A comprehensive narrative risk assessment could include political and policy changes, restructures, the economy and rate movements.

The disclosure of the approach to legal conflicts and sunset provisions is reasonable.

The disclosure of assumptions used is critical, being a high risk area of misstatement which would render the projections meaningless if not robust. This should be accompanied by an outline of the policy for reviewing and testing these assumptions as this is an essential step to ensure they remain robust, not just good practice. Cross-organisational consistency on key areas may help quality standards.

Sharing of good practice and key variables (e.g. inflation and discount rates), where appropriate would be welcomed. Additional guidance would support consistency and data quality.

This is likely to be a tricky area for audit but a recommendation that an organisation maintains a clear policy with evidence of applying that policy would help provide some assurance. The RPG should contain guidance on best practice for reviewing and testing assumptions and an outline for an audit approach.

Impact of legal requirements – the relevant items could be myriad and too detailed for a published report. Information should only be provided on an exception basis i.e. where critical for understanding the information provided and signposting/ links to sources of additional information used to avoid excessive detail.

Guidance on whether to undertake sensitivity analysis needs to be linked to the likelihood of variation so as to focus this level of detail on the areas which need it most to reduce unnecessary effort.

The inclusion of caveats explaining the inherent uncertainties of projections are essential.

Consideration should also be given to including "safe harbour" provision on future performance where there may be commercial or political sensitivity.

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February 29, 2012

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Dear Ms. Fox

**Re: IPSASB GUIDELINE ED 46: Reporting on the long term sustainability of a public sector entity's finances**

Thank you for the opportunity to comment on the IPSASB Recommended Practice Guideline (RPG) Exposure Draft 46.

As a senior government, Ontario supports long term fiscal sustainability reporting to the public, but we do not believe that the nature of long term sustainability reporting aligns with a framework of accounting and auditing standards that are designed to fairly present historical financial results.

Ontario has legislation (*Fiscal Transparency and Accountability Act, 2004* (FTAA)) requiring it to produce, following an election, a long-term economic report. Ontario has produced two reports since 2004, both with a 20 year time horizon. These reports describe anticipated changes in demographics and the economy that could impact key fiscal policy issues and longer sustainability of the economy and public sector finances. These reports are produced primarily by fiscal and economic experts in the Ministry of Finance, through consultation with similar experts in the private and public sector. Due to the long term nature of the information in these reports, the involvement of the accounting and/or auditing community is limited.

As required by FTAA, Ontario also produces a Pre-Election Report on Ontario's Finances in the year of an election. The Pre-Election Report is subject to the independent review by the Auditor General and is limited to a medium term fiscal planning period. Comments by the Auditor General explicitly note the increasing risks and uncertainties associated with forecasts the further out that is projected.

.../2

Ms. Fox  
Page 2

In Ontario, short or medium term fiscal projections are lead by the fiscal and economic experts, with involvement from the accounting community limited to input on changing accounting standards or facilitating the relationship with the Auditor General's office as part of any review.

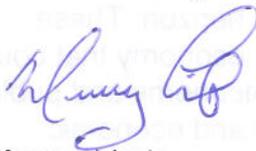
The Exposure Draft suggests formal engagement with external auditors to produce more reliable information. As noted above, aside from the auditing community's possible involvement with the review of shorter-term fiscal plans, we question the feasibility of auditor involvement in such longer term projections. As noted by Ontario's Auditor General, the current auditing standards discourage auditors from reviewing and opining on long-term focused future-oriented information as the validity of the assumptions erodes significantly the further outward focused the forecast.

Since the characteristics of long term fiscal sustainability reporting fall beyond the scope of the financial accounting community, it would be more appropriate that such supplemental reporting reflect each jurisdiction's perception of relevant and useful information to its stakeholders. For Ontario, this information is presented that best communicates the long term view of our finances to our primary stakeholders – the legislature, public and the media.

Specific responses to the detailed questions posed in the Exposure Draft are included in the attachment to this letter.

Thank you again for the opportunity to comment on the exposure draft.

Yours sincerely,



Murray Lindo  
ADM & Provincial Controller  
Office of the Provincial Controller Division

Attachment

## ATTACHMENT

### **Specific Matter for Comment 1:**

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriation indicators please provide them.

*We disagree with the applicability of long-term fiscal sustainability reporting to the individual entity level. While there is some applicability to the government reporting entity level, we believe that jurisdictional discretion should be applied in determining the appropriate scope and content for such reporting, and that the nature of guidance, if any, to be provided on such reporting is beyond the scope of accounting standard setters.*

### **Specific Matter for Comment 2:**

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

*We find the dimensions to be similar to existing Canadian accounting literature. While the dimension of flexibility has been omitted (the degree to which a government can increase its financial resources, through tax or debt, to respond to rising commitments), the framework as described appears sufficient.*

### **Specific Matter for Comment 3:**

Do you agree with the guidelines in this ED on disclosure of principles and methodologies including risks and uncertainties? If not, how would you modify these guidelines?

*As noted above, we disagree with the relevance of this material to individual public sector entities and we believe that jurisdictional discretion should be exercised in determining the appropriate scope and content for these types of reports.*

ATTACHMENT

Specific Matter for Comment 1

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)

Specific Matter for Comment 2

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)

Specific Matter for Comment 3

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)

The proposed rule requires that a person who is not a member of the public... (text is mirrored and difficult to read)



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February 28, 2012

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**Comments on the Exposure Draft, “Reporting on the Long-Term  
Sustainability of a Public Sector Entity’s Finances”**

Dear Ms. Fox,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Exposure Draft, “Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances” (ED), as follows.

**General Comments**

1. According to the paragraph BC5 of the ED, reporting on the long-term sustainability of a public sector entity’s finances is considered to be within the scope of General Purpose Financial Reports (GPFRs), as defined in the Conceptual Framework ED, *Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.
2. In regards to this, we propose that the ED should clarify the following:
  - (a) further explanations on the objectives of GPFRs—accountability and

decision-making— with regard to the long-term sustainability of a public sector entity’s finances; and

- (b) how the qualitative characteristics would serve in reaching the objectives of GPFs, accountability and decision-making, relating to the long-term sustainability of a public sector entity’s finances. (For example, in the paragraph 15, only the relevance of reporting is stated in determining whether to report on a public sector entity’s long-term fiscal sustainability.)

### Specific Matters for Comments

#### Specific Matter for Comment 1:

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

3. We agree with the proposal. We believe that “Significant tax and/or other revenue raising powers” and “Powers to incur debt”, stated in the paragraphs 15 (a) and (b) respectively are consistent with the ability of an entity to meet financial commitments, stated in the definition of the long-term fiscal sustainability in the paragraph 7. In addition, the statement in the paragraph 15(c) “Wide decision-making powers over service delivery levels” is also in line with the ability of an entity to meet service delivery as stated in the definition of the long-term fiscal sustainability.

#### Specific Matter for Comment 2:

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

4. We agree with the SMC2, with the exception of the definition of vulnerability in paragraph 34, for reasons stated below.
5. The ED defines vulnerability only from the perspective of revenues of an entity, as can be noted from the proposed definition:
- “Vulnerability is (a) the extent to which an entity is fiscally dependent upon

funding sources outside its control, principally inter-governmental transfers; and (b) the extent to which an entity has powers to vary existing taxation levels or other revenue sources and to create new sources of taxation and revenue.”

6. We consider that this proposed definition of vulnerability is incomplete, since it only refers to the revenues of an entity. Therefore, we propose to add to its definition, “the extent to which an entity can reduce its expenditures.”
7. With respect to the vulnerability of finances, entities’ fiscal sustainability would vary for those that have performed financial or administrative reforms, and for those that have not. Entities in a public sector can reduce some of their expenditure more easily than others. For example, entities may be able to reduce their public investments in infrastructure with less difficulty, compared to decreasing their investments in social securities. Their fiscal sustainability would also be influenced by factors such as, for example, which expenditure would account for a significant proportion of the total expenditure of the entities.

**Specific Matter for Comment 3:**

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

8. We agree with the guidelines, subject to consideration of the following matters in paragraphs 9 to 13:
9. In paragraph 39, it is stated that the disclosure of “the date at which a full set of projections was made and the basis and timing of subsequent updating” is required. In addition to this, it should also be required for entities to disclose their policy on updating assumptions underpinning their projections. (e.g. the assumptions shall be updated once every few years, or shall also be updated after an unexpected event such as a natural disaster.)  
If entities are not required to disclose their policy for updating their assumptions, there may be a risk that some entities may not update their assumptions for a long period of time and their assumptions would become unreasonable.
10. Furthermore, we suggest that projections be also updated after some unexpected events such as accidents or emergencies. Paragraph 39 provides a case that, during

periods of global financial volatility, projections made before the reporting date may become outdated. But, in addition, we recommend that paragraph 39 should also take into account certain catastrophic events as a reason for updating the projections.

11. With respect to “sufficient information on underlying macro-economic policy and fiscal frameworks” stated in the paragraph 47, we suggest that the ED should require the disclosure of sources of the information. Disclosing the sources of information may increase the degree of reasonableness of an entity’s assumptions and would enhance verifiability of their projections.
12. Paragraph 48, which advise an entity to disclose its approach to inflation and its application of discount rates, calls for projections on present-value basis. We believe that projections at nominal value basis would also be useful and such a statement need to be included in the ED or its Basis for Conclusions (BC).
13. We suggest that the ED should require the following disclosures:
  - (a) comparative information for the projections and, subsequently, the actual results for the same period of time; and
  - (b) while the regular updates are expected, when an entity cannot update assumptions of their projections, a statement to that effect and related reasons.
14. The reasons for the above suggestions are as follows :
  - (a) the comparative information would assist users of long term sustainability report to analyze the reasonableness of the projections; and
  - (b) when there are major changes(\*) in an entity’s assumptions, but the entity cannot update its projections due to time constraints, we believe that the entity needs to disclose such facts and the reason for not updating their projections in order to alert the users.
    - (\*) We presume such changes as exemplified below:
      - when the level of pension benefit has been reduced; or
      - when the value-added tax rate has been raised.

## Other Comments

### Comment on paragraph 18

15. Paragraph 18 states that “it should assess the extent to which it can draw on the projections and indicators prepared by other governmental bodies, such as

ministries of finance, rather than making the projections itself, in order to reduce the cost of such reporting.”

16. In addition to the condition of the cost reduction stated in the paragraph 18, we believe that the ED should also include the following condition:

“If the projections and indicators prepared by official governmental bodies are reliable, these may be considered by an entity in preparing its projections.”

If we only include the current statement on the condition of the cost reduction, there may be cases when some entities would neither make the projections by themselves, nor disclose their projections even when they have adequate projections prepared internally.

#### Comments on the paragraphs 46 and 47

17. We suggest that the ED should clarify that projections and budgets are different. In many jurisdictions, the legislature approves the budget and gives authorization to the government. The budget serves to authorize the government to execute its policies, and informs the citizens of its plan of actions. On the other hand, the projections described in the ED are made based on the current governmental policies. Therefore, we suggest that the ED should clarify the fact that the projections on future outflows are different from expenditures that are budgeted, or the expenditures that are incurred.

Yours sincerely,

Naohide Endo

Executive Board Member - Public Sector Accounting and Audit Practice

Tadashi Sekikawa

Executive Board Member - Public Sector Accounting and Audit Practice



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February 29, 2012

Ms. Stephanie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its October 2011 exposure draft (ED) entitled *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*. The objective of the exposure draft is to provide guidance, through a Recommended Practice Guide, on how an entity may supplement their statements by presenting projections of inflows and outflows and other complementary information on an entity's long term fiscal sustainability.

The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has some general comments and shall also address the specific matters for comment that are included in the exposure draft.

The FMSB supports the belief of the IPSASB that the users of general purpose financial statements would be well served if they were provided with supplemental information on the long term sustainability and the anticipated impacts of a government's current policies. Such information is not fully reflected in the general purpose financial statements because these statements are based on historical, objectively established information, which accordingly should not contain projections other than those established under legal contracts (e.g. debt repayments and scheduled lease payment). Recent events in the European Union have demonstrated the need for all governments to report on the long term fiscal sustainability of their programs and their ability to meet their financial obligations.



The ability of governments to report long term sustainability information has been recently demonstrated by the United States government. The Federal Accounting Standards Advisory Board (FASAB) issued SFFAS No. 17 which requires the federal government to report on the long sustainability of social insurance programs. Although the value of such information as it may impact decision making by the U.S. Congress has not yet been established, it is believed that currently reported sustainability information should bear on Congressional decision making. We have reviewed the ED and the suggestions regarding what should be measured and how it should be measured. We agree that the indicators proposed by the IPSASB are appropriate indicators for long term sustainability and that the dimensions provide a sound framework. However we do have concerns about how this information would be presented. The ED leaves the reporting of this information as optional for the government entity. It would seem that for sovereign entities, reporting of this information should be mandatory. However, we believe that such information should be clearly identified as supplemental to the audited annual financial statements and presented at a different level of reliability.

Below the sovereign level of government, the issue of sustainability for programs and services will relate to several factors, including the willingness and constitutional ability to raise additional revenues and the prospects for support from the next higher level of government. For example, if a city is not sustainable, the citizens might expect assistance from a higher level of the country's government. However, at the sovereign level, the ability to provide such assistance may be restricted by sustainability issues.

We believe that the IPSASB should also provide guidance on the method of reporting for this information and some examples for users to examine. The current ED does not specify whether this information should be provided in a new statement, in footnotes to existing statements, or in some other format. Some guidance should be provided in this area. If the information is desirable as well as critical for users, some standards should be set for its presentation so as to make information comparable, not only from year to year within an entity but also comparable between government entities. Following are our answers to the specific matters for comment in the ED.

### **Comments to Specific Matters**

1. Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

**FMSB Response-**We agree with the characteristics set forth in paragraph 15 of the ED. We have no additional suggestions for the IPSASB.

2. Do you agree that the "dimensions" of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?

**FMSB Response-**We agree with the dimensions of long term sustainability in paragraphs 27-37. We would suggest that the IPSASB also include a requirement that sovereign governments report any annual budget deficit as a percentage of GDP.

3. Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

**FMSB Response**-We agree that disclosure of the principles and methodologies, including risks and uncertainties, should be disclosed.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Eric S. Berman", with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2011 – June 2012**

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Stephenie Fox  
Technical Director  
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277 Wellington Street, 4<sup>th</sup> Floor  
Toronto, Ontario, M5V 3H2 CANADA

2 March 2012

Dear Stephenie

IPSASB Exposure Draft 46 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*

1. I am writing to set out the views of staff of the ASB in response to the above Exposure Draft (ED). The comments expressed in this letter have not been discussed by the ASB.
2. We welcome the decision by the IPSASB to publish Recommended Practice Guidance on Long-Term Sustainability of a Public Sector Entity's Finances. We consider that this is an area that may be of great interest to users of government accounts, and in the absence of identifiable users we consider that it is important for all entities to evaluate their long-term sustainability as a matter of good governance.
3. Our responses to the Specific Matters for Comment and some further comments are set out in the attached Appendix. We should be pleased to enlarge on these if that would be helpful, in which case please contact me or Joanna Spencer ([j.spencer@frc-asb.org.uk](mailto:j.spencer@frc-asb.org.uk)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Lennard'.

**Andrew Lennard**  
**Director of Research**

DDI: 020 7492 2430

Email: [a.lennard@frc-asb.org.uk](mailto:a.lennard@frc-asb.org.uk)

## Appendix

## Comments on Specific Matters for Comment

## SMC 1

*Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.*

1. Although we agree with the characteristics provided in paragraph 15 as being indicators that users of accounts will exist, we do not consider that the identification of said users are a prerequisite for determining whether or not to provide information of an entity's expected long-term fiscal sustainability. We are of the opinion that all entities should evaluate their long-term sustainability as a matter of good governance.
2. That said we suggest that the dominant characteristic will depend on the level of government that is reporting on long-term fiscal sustainability (i.e. at a whole of government level or agency level). For example, for whole of government the ability to raise taxes or other revenues may be the most significant characteristic in contrast to a government agency whereby the most significant characteristic is likely to its ability to provide services.
3. Although agency level reporting is basically scoped out in paragraph BC13 we consider that for some agencies, e.g. social security, health, education, the reporting of long-term fiscal sustainability would be of great interest to users and it is these cases that reporting on service delivery levels is of the greatest importance.

## SMC 2

*Do you agree that the "dimensions" of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?*

4. We agree that with the dimensions provided in paragraphs 27-37 and that they will provide a viable framework for reporting on the long-term sustainability of an entity's finances. However, we consider that the projections should be made on current (as stated in the ED) and future known policies. With the emphasis being solely on current policies it may exclude entities from including policies which are known to be changing but have not yet changed.

## SMC 3

*Do you agree with the guidelines in this ED on disclosure of principles and methodologies including risks and uncertainties? If not, how would you modify these guidelines?*

5. We agree with the guidelines for disclosure of principles and methodologies however again we suggest that the projections should be made on current and future known policies.
6. We also suggest that it might be useful to define forecast and projections as some users may use them interchangeably.

#### **Other matters for comment**

7. We notice that the ED does not mention that the purpose of the [draft] Recommended Practice Guidance is to provide supplementary information that meets the objectives of financial reporting, being accountability and decision-making (as stated in the accompanying "At a Glance" document). We consider that this is a key element and should be included in the Objective paragraph (paragraph 1).
8. We note that the proposed scope excludes GBEs, however, we are of the opinion that because the [draft] RPG is not mandatory there is no specific reason for any entity to be excluded, also considering that there is no for-profit equivalent that we know of. Further because other entities sustainability may be influenced by a GBE's inflow and outflows we consider that it would be useful information for GBEs to also report on their long-term fiscal sustainability.
9. In the definitions, inflows and outflows are defined in terms of cash and cash equivalents. We consider that other resources which may be expected from other sources should be included as these can be relevant to an assessment of its fiscal sustainability.
10. We consider that the language in paragraph BC13 is too strong in that it all but excludes reporting of long-term fiscal sustainability at an agency level because of their inability to raise taxes and debt. As mentioned in paragraph 2 above the long-term fiscal sustainability of some agencies may be of interest to some users.

#### **Editorial corrections**

11. We have noted some minor editorial errors and include them here for your convenience:
  - a. In paragraph 30 the word 'between' appears to be missing after 'distinguish' (first sentence); and
  - b. In paragraph 50 there is a double 'that' (first sentence).

**Denise Silva Ferreira Juvenal**

[rio1042370@terra.com.br](mailto:rio1042370@terra.com.br)

**Accountant**

**Commentary individual**

**Rio de Janeiro / Brazil**

**Sir**

**Chair and Steering Committee**

**The Technical Director**

**International Public Sector Accounting Standards Board**

**International Federation of Accountants**

**277 Wellington Street West**

**Toronto, Ontario M5V 3H2 CANADA**

[stepheniefox@ifac.org](mailto:stepheniefox@ifac.org).

**29 February 2012**

**Reporting on the Long-Term Sustainability of a Public Sector Entity's  
Finances.**

I'm Denise Juvenal this pleasure to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS about Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances.

**Guide for Respondents**

**The IPSASB would welcome comments on all the proposals in the ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the ED.**

**Specific Matters for Comment**

**The IPSASB would particularly value comments on the Specific Matters for Comment below.**

This study is very important for development and increase of informations and internal control for the government and non-profit organizations.

#### **Specific Matter for Comment 1**

**Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.**

I agree with paragraph 15 when describes users for long-term fiscal sustainability information for entities with one or more of the following characteristics: (a) Significant tax and/or other revenue raising powers; (b) Powers to incur debt; or (c) Wide decision-making powers over service delivery levels. I believe that for government and non-profits are adequate, in this moment I understand that don't have others considerations for include as characteristics, but in future can occur others factors that can be characteristics.

#### **Specific Matter for Comment 2**

**Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?**

In relation the “dimensions” of long-term fiscal sustainability in paragraphs 27-37, I understand that in this moment is very adequate the IPSAS/IFAC discuss about this proposal that has clearly, transparency, objectivity, inspection and observation.

The long-term sustainability of an entity’s finance that complements and interprets the projections has relation as new discussion about sustainability relationship the Integrated Reporting, that I considering very important for the government in relation a budget and projections.

As described in the point 27 the dimensions about 1-Fiscal capacity; 2- Service capacity; and 3-Vulnerability, I observe that in relation a Service Capacity include only services, but I have doubt if the volume and quantity has relation that capacity of the government has condition for implement this or other project.

When I observed the context about budget I understood, that service have relation with financial resources for attend some quantity, in relation aspect for

projections, I don't know, because can be exist risk if the government don't have resources for applied or occur demand that don't have expectation.

**Specific Matter for Comment 3**

**Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?**

Yes, I agree with this exposure draft on disclosure of principles and methodologies, including risks and uncertainties.

Thank you for opportunity for comments this proposal, if you have questions don't hesitate contact to me, [rio1042370@terra.com.br](mailto:rio1042370@terra.com.br).

Yours,

Denise Silva Ferreira Juvenal

[rio1042370@terra.com.br](mailto:rio1042370@terra.com.br)

552193493961

ED 46 - Proposed Recommended Practice Guideline, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*

# **response to exposure draft**

12 March 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/120312 SC0174

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto  
Ontario M5V 3H2  
CANADA  
Submitted electronically

Dear Stephenie Fox

**IPSASB ED 46 - Proposed Recommended Practice Guideline, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances***

CIPFA is pleased to present its comments on this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comments**

As noted in successive CIPFA responses on this topic and others

- CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs.
- CIPFA agrees that it is important to broaden the developing Conceptual Framework to cover matters which go beyond a focus on financial statements.
- CIPFA agrees that fiscal sustainability and other public sector issues such as reporting on social benefits are important issues which should be properly explored.

In the light of the above comments we would like to strongly reiterate and reinforce CIPFA's support for the aspirations of this project to provide a more complete view of the financial affairs of government than are presented in conventional financial statements, principally by setting out projections of future revenue and expenditure relating to current programmes and commitments.

These proposals fit well with many CIPFA initiatives through which we seek to improve public sector financial management, including matters set out in our publications *Fixing The Foundations*, and *Public Financial Management: A Whole Systems Approach (Volumes 1 and 2)*.

The proposals are also timely, given

- current private sector discussions of 'going concern' assessments for banks, insurance and other large companies (including the UK Sharman enquiry); and
- concerns over the extent to which governments and countries are managing their finances in a manner that command confidence, perhaps analogous to operating as going concerns. The global financial and sovereign debt crises have highlighted vividly the damaging consequences of weak public financial management based on incomplete, inaccurate, and out-of-date financial data.

Against this background, we consider that the long term fiscal effects of government programmes are a matter which should be considered in any initiative which seeks to improve or maintain public sector financial management. Having said this, we would not always consider these to be the most pressing matters to address. The governments which were 'surprised' by a sovereign debt crisis mostly lacked basic accrual accounts for assets and liabilities, and it might make sense to develop conventional financial statements before addressing more advanced reporting.

## **Drafting comments**

### *Identifying the requirements of the Guideline*

The proposed Recommended Practice Guideline will be the first document of its type issued by the IPSASB, and will differ from other pronouncements in that while it will not be mandatory, it will not be purely descriptive, and it will set out requirements for compliance with the standard. Furthermore, it will encourage those reporting on long term fiscal sustainability to indicate whether their reporting is compliant or partially compliant with those requirements.

Given this, it would be helpful if the proposed guideline were to clearly distinguish between descriptive material which reflects what can or may be done, and the RPG requirements which set out a baseline for what the entity should do based on its assessment of circumstances.

We would note that the IASB faced similar issues in its Practice Statement, *Management Commentary*. The IASB document adopts a drafting approach which starts with brief descriptive material, followed by requirements which the entity 'should' do, either in all cases or when appropriate.

ED 46 seems by contrast to use a variety of approaches to signposting requirements,

- 'it is important that an explanation is provided' (para 13)
- 'an entity needs initially to assess' (para 14); also
- 'fiscal sustainability should be considered in the context' (para 15)
- 'core information ... will be ...' (para 17)
- 'requires the inclusion of ...' (para 23)

Although when taken in isolation these generally signify 'requirements', they are juxtaposed with descriptive and conditional material which makes things less clear. It would be helpful if the requirements and descriptive material were more clearly delineated.

### *Placement of discussion of the objectives of financial reporting*

The ED explains at Para 20 of the draft RPG that 'A single presentation approach is unlikely to satisfy the objectives of financial reporting.'

As we indicated in the CIPFA response to the Consultation Paper in 2010, we were not convinced that fiscal sustainability reporting should be represented as necessary to satisfy the objectives of financial reporting.

Furthermore, this type of justification would be better contained in the Basis for Conclusions, together with more specific explanation of why and how multiple presentation approaches are desirable, for example, by providing more complete information of the economic circumstances of the entity which enhance faithful representation.

### *Discussion of representational faithfulness*

Para 27 of the ED sets out a requirement that information reported should be 'faithfully representative', that this requires the inclusion of narrative discussion, and can be satisfied by presenting historical and prospective information on three dimensions.

We suggest that 'representationally faithful' would be a better term to use; both terms have been used in IASB briefings, but this is the predominant usage and seems to us to be more accurate.

We also suggest that it would be helpful to provide a more specific description of what is meant by faithful representation so that it can be better related to the content of reporting.

We would also note that the current drafting might be misread as implying that providing information on the three dimensions will automatically result in faithful representation. We suggest that reporting on the dimensions will normally be necessary, but will only be sufficient if the reporting provided on each dimension is of sufficient quality.

#### *Use of the term 'sustainability'*

We would note that using the term "sustainability" in the title and the introductory text chimes well with our own experience in the context of the UK political and economic context. We would also expect it to be well received in other Anglophone nations and in most of the Eurozone. However, it may be considered by some to reflect a particular First World economic and political orthodoxy. IPSASB might therefore consider whether it would be more helpful to reframe the title and introductory material in more neutral terms of e.g. commentary on the long term fiscal effects of government programmes. This might also reduce the need to distinguish between actual 'sustainability' and 'practical reporting on apparent indicators of sustainability, based upon current assumptions about resources, commitments and technology'.

Furthermore, while on balance we consider that it is helpful to introduce 'long-term fiscal sustainability' as a technical term, it would be helpful if this term were consistently used throughout, and informal usages (such as 'unsustainable' in para 30) were avoided.

#### *More detailed drafting*

Some more detailed drafting points are set out in an attached annex.

### **Specific Matters for Comment**

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out below

#### *Specific Matter for Comment 1*

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

CIPFA agrees that these characteristics provide a useful indicator of whether *users might exist for whom public sector reporting entities might reasonably be expected to provide such reporting*. It would be helpful to be clear at paragraph 14 that the 'need' for reporting is framed in terms of users who in some measure deserve this information, for example reflecting the government's democratic, constitutional or other responsibility to be accountable.

*Specific Matter for Comment 2*

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

CIPFA agrees that the “dimensions” provide a viable framework for this reporting, subject to our detailed drafting comments.

*Specific Matter for Comment 3*

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

CIPFA agrees in general terms with the guidelines on disclosure of principles and methodologies, subject to some drafting observations.

I hope this is a helpful contribution to the development of the Board’s guidance in this area.

Yours sincerely

Paul Mason

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## IPSASB ED 46 - Detailed drafting comments

### Para 2

*...As part of reporting on its long-term fiscal sustainability an entity should indicate that it has followed this RPG or disclose if it has departed from the RPG and explain why such a departure was necessary.*

It would be more in keeping with the non-mandatory nature of the RPG if the entity explained why the departure was 'necessary or desirable'.

### Para 13

*It may be considered appropriate to disclose information on long-term fiscal sustainability based on the boundary of the budget sector. In such cases it is important that an explanation is provided of how the boundary of the budget sector differs from that of the reporting entity.*

The term 'budget sector' is not self-explanatory and its meaning is not clear. It would be helpful if the intended meaning was explained.

### Para 16

*If a controlled entity determines that there are users for information on the long-term sustainability of their finances it should ensure that the information reported is (a) consistent with information reported by the controlling entity, (b) that the controlling entity is identified, and (c) users are made aware of information on long-term fiscal sustainability reported by the controlling entity.*

We suggest it would be clearer and more accurate to say 'take reasonable steps to ensure', (ie based on the controlled entity's understanding of the controlling entity information).

### Para 20

*Projections of net debt are likely to be central for many reporting entities.*

We suggest that the term 'central' is insufficiently clear. It would be helpful to provide a specific explanation, for example that net debt might be considered to be an important indicator, or one of the more important indicators of fiscal sustainability for the entity.

**Para 22**

*There is a risk that both tabular statements and graphical disclosure can be skewed to present a misleadingly favorable picture.*

'Skewed' is not a clear or accurate term for the wilful presentation (or misrepresentation) of data which without technical inaccuracy gives a misleading impression. Perhaps this should be framed in terms of 'selective' or 'unclear' presentation.

We also suggest 'misleadingly favorable or unfavorable' would better capture situations where, for example, newly elected governments might incorrectly attribute fiscal sustainability problems to predecessor governments.

**Para 25**

*There is a strong relationship between fiscal dependency and time horizons.*

We suggest that the relationship is between e.g. 'fiscal dependency and the time horizons over which it is beneficial or meaningful to report on'.

**Para 36**

*Generally, an entity that is highly vulnerable is likely to have limited control over the sustainability of its finances. Trends indicating that vulnerability is increasing suggest that an entity's future sustainability is dependent upon funding decisions by entities at other levels of government.*

The underlined sentence 'Generally...' seems to be stating that an entity with little control over its funding has little control over its fiscal sustainability. This seems tautologous, and in any case, is better explained in the subsequent sentence on increasing vulnerability.

**Para 36**

*It is important that users are provided with details of constitutionally or statutorily-based revenue sharing or grant arrangements. Vulnerability may be mitigated if inter-governmental transfers have constitutional or other legal underpinning, which may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of receiving funds.*

The underlined portion '...which may...' also seems superfluous and less clear than the material which precedes it.

The drafting could be further clarified as follows:

'Vulnerability may be mitigated if funding received from inter-governmental transfers ~~have~~ has constitutional or other legal underpinning'.



Paris, 27<sup>th</sup> February 2012

**LE PRÉSIDENT**

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**Re: Exposure Draft 46 - Reporting on the long-term sustainability of a public sector entity's finance**

Dear Ms Fox,

Please find enclosed the reply of the Public Sector Accounting Standards Council (“CNOCP”) to the above-mentioned Exposure Draft.

To begin with, the Council would like to congratulate the IPSAS Board for publishing this Exposure Draft which, through its requirements and analysis, sets out the specific characteristics of the public sector in relation to reporting accounting, financial and economic information.

The Council agrees with the status of the Exposure Draft issued for consultation, namely a recommendation, as the subject of the consultation is not within the scope of the IPSAS Board's accounting standard-setting mandate.

The Council also agrees with the IPSAS Board that “*the financial statements cannot provide all the information that users need on social benefits*”. The Council is therefore in favour of the reporting of complementary prospective financial information separate from the entity's financial statements that supplements and broadens the perspective of the latter, as long as the scope of the prospective information is similar to that of the financial statements and based on accounting information.



However the Council believes that the concept of sustainability is only significant when applied to the public sector as a whole, or at least to a level of aggregation which includes the decision-makers for expense and revenue; this is moreover the approach adopted by the Member States of the European Union and the European Commission in its triennial report on age-related expenditure and associated sustainability and in which the sustainability data are drawn up in total for all government bodies. Thus, the publication of information relating to the sustainability of public finances only appears relevant at a certain level of aggregation and consolidation and for certain entities with a genuine power to adapt their revenue and expenditure, which are in practice limited in number.

However, the Council believes that at the level of individual public entities (and in particular of those numerous entities financed chiefly by transfers of resources from other public entities), prospective information based on the accounts, other than sustainability data in the strict sense of the term, could help clarify the financial statements. This is in particular true of entities delivering services (irrespective of whether they have any power of decision over the latter) financed chiefly either by transfers of resources from other public entities or by tax revenue allocated to them (without having the power to raise taxation themselves). For these entities, projections of future expense, the identification of future sources of finance and the evaluation of their vulnerability in respect of their dependence on transfers of resources from other public entities would provide useful information to users of the financial statements. This prospective information at individual entity level would provide a relevant supplement to the aggregated sustainability data.

Lastly, the Council notes that the recommendation does not define the rules or principles applicable to drawing up sustainability data, given their specific non-accounting nature, but requires disclosure of the principles and methodology used. Nevertheless, it would be appropriate to define methodological guidelines for establishing prospective data at individual entity level, so as to ensure overall consistency and the comparability with other entities. In particular, where demographic or macro-economic projections are made at national level they should be used by all entities unless the use of different assumptions can be



justified. The definition of methodological guidelines would require the active monitoring role of entities responsible for macro-economic and statistical studies or forecasts in consultation with the standard-setter.

Yours sincerely,

Michel Prada



## APPENDIX 1

### ANSWERS TO THE QUESTIONS IN THE EXPOSURE DRAFT

#### QUESTION 1

**Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider there are more appropriate indicators, please provide them.**

See Appendix 2 – Detailed Comments: Determining Whether to Report on Long-Term Fiscal Sustainability (paragraphs 14-16)

#### QUESTION 2

**Do you agree that the dimensions of long-term fiscal sustainability in paragraphs 27 to 37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?**

See Appendix 2 – Detailed Comments: Addressing the Dimensions of Fiscal Sustainability (paragraphs 27-37)

#### QUESTION 3

**Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?**

See Appendix 2 – Detailed Comments: Disclosure of Principles and Methodologies (paragraphs 37-51)



## **APPENDIX 2**

### **DETAILED COMMENTS**

#### **Objective (para.1)**

The Council agrees with the IPSAS Board’s affirmation in BC3 of the Basis for Conclusions, that “*the financial statements cannot provide all the information that users need on social benefits*”. The Council is therefore in favour of the reporting of complementary prospective financial information separate from the entity’s financial statements that supplements and broadens the perspective of the latter, whilst being based on and having the same scope as the accounts. Moreover, the Council believes it would be useful to take the subject of social benefits on to the IPSAS Board’s agenda.

Nevertheless the Council believes that the objective of the recommendation, which is the preparation of a report on the long-term sustainability of a public sector entity’s finances, will only satisfy the primary requirement of the IPSAS Board, which is to supplement and clarify the financial statements of public sector entities, in a limited number of cases (that is, only in the case of certain entities meeting the criteria set out in the recommendation and at a certain level of aggregation).

The Council therefore believes that it would be appropriate to consider the possibility of including in the supplementary prospective information items which are not strictly related to sustainability, for example projections of expense and the related financing, as well as vulnerability analyses.

#### **Status and Scope (paras.2-6)**

The Council agrees with the status of the Exposure Draft issued for consultation, namely a recommendation (*proposed recommended practice guideline*), as the subject of the consultation is not within the scope of the IPSAS Board’s mandate as an accounting standard-setter but corresponds to its authority to make recommendations on financial information outside of that scope.



It would, however, be appropriate to clarify the status and characteristics of a report drawn up in application of a recommendation rather than a standard. In particular, it would be useful to clarify whether the report on the long-term sustainability of a public sector entity's finances falls within the scope of *General Purpose Financial Reporting*, which, in the light of the future developments under consideration for a Conceptual Framework for IPSAS, would imply that the latter should have certain qualitative characteristics<sup>1</sup>. However, the Council stresses that, in its opinion, the qualitative characteristics of accounting information do not apply to *General Purpose Financial Reporting*. In this particular case, as sustainability data is based on macro-economic and statistical assumptions, amongst others, which are derived in some cases from work on the National Accounts (i.e. produced using the specific rules and principles relevant to the latter), the qualitative characteristics of accounting information are not applicable.

The Council further stresses that it agrees with the point of view expressed in the Exposure Draft on the Key Characteristics of the Public Sector, which underlines the importance of the adoption of the budget for public entities, because it is during the budget discussions that a sustainability analysis would be the most useful as an aid in making decisions on proposed expense and revenue. It would therefore be appropriate for the connection between the budget process and the publication of sustainability information to be specifically addressed and discussed.

### **Definitions (paras.7-9)**

The Council believes that it would be useful to clarify the meaning of “long-term” in the definition of “long-term sustainability” as there are several possible approaches.

In addition, the Council notes that the Exposure Draft uses both the terms “long-term sustainability” (title of the Exposure Draft, paras.1, 14, 16, 17,) and “long-term fiscal sustainability” (paras.7, 15,) without differentiating them.

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<sup>1</sup> A reference is made to “faithful representation” in para.27 of the Exposure Draft.



The term “cash equivalents” used in the definitions of “inflows” and “outflows”, should be clarified and defined in the Basis for Conclusions.

### **Reporting Boundary (paras.10-13)**

The Exposure Draft stipulates that the scope of the financial statements and of the report on the long-term sustainability of a public sector entity’s finances should be identical but includes important exceptions to this principle, such as the use of information based on National Accounts or the boundary of the “budget sector”. However, in the Council’s opinion, the scope of the sustainability data should be similar to that of the financial statements and the reported prospective information should be based on the accounts; otherwise, the information reported would be outside of the scope of the IPSAS Board and of this recommendation.

### **Determining Whether to Report on Long-Term Sustainability (paras.14-16)**

As mentioned above, the Council believes there may be users of prospective financial information for entities with characteristics different to those set out in paragraph 15 of the Exposure Draft. This is in particular true of entities delivering services (irrespective of whether they have any power of decision over the latter) financed chiefly either by transfers of resources from other public entities or by tax revenue allocated to them (without having the power to raise taxation themselves). For these entities, projections of future expense, the identification of future sources of finance and the evaluation of their vulnerability in respect of their dependence on transfers of resources from other public entities would provide useful information to users of the financial statements.

The Council proposes two criteria for determining whether it is relevant for a given entity to report on the long-term sustainability of finances, which are based on inflows and outflows as defined in paragraph 7 of the Exposure Draft:

- (a) Power over resource inflows : significant power to raise taxation or other revenue or power to incur debt ;
- (b) Wide decision-making powers over expense outflows<sup>2</sup>.

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<sup>2</sup> The power of decision over expense may take the form of the power to adapt benefits or services provided.



It should be added that, in most cases, the two criteria are necessarily cumulative (the satisfaction of just one of the criteria is in theory an exception).

In addition to these criteria, the Council believes it would be useful to determine application thresholds (total resources, number of citizens,) so that only entities of significant size would be required to prepare prospective information.

Lastly, the Council believes that the recommendation should indicate that sustainability data, for the public sector, are most relevant when they supplement consolidated accounts<sup>3</sup>, taking into account the particular and complex nature of relationships between government bodies (which in many cases provide services over which they have no decision-making powers) and their funding sources (by transfer of resources from another public entity, the allocation of taxation,...).

### **Presenting Projections of Prospective Inflows and Outflows (paras.17-26)**

The Council agrees with the requirements set out in the Exposure Draft. Nevertheless, the Council regrets that the IPSAS Board makes no reference, for discussion purposes, to the sustainability indicator used by the European Union, that is an estimation of the reduction of the deficit necessary to ensure a stable debt /GDP ratio (or of the ratio net debt / total resources, for a given entity).

### **Addressing the Dimensions of Fiscal Sustainability (Paras.27-37)**

The Council agrees with the two proposed dimensions of sustainability, “fiscal capacity” and “vulnerability”.

However, the Council notes that “service capacity” is more far-reaching than a purely financial indicator. Indeed, the ability to maintain the quality and volume of a service depends on a combination of resource and investment levels, on cost trends and actions to improve and rationalize public service. However the presentation of this indicator in paragraph 32 implies that the evaluation of service capacity depends mainly on the projection of resource levels.

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<sup>3</sup> At local or national level, for all government bodies.



### **Disclosure of Principles and Methodologies (paras.37-51)**

The Council notes that the recommendation does not define the rules or principles applicable to drawing up sustainability data, given their specific non-accounting nature, but requires disclosure of the principles and methodology used. Nevertheless, it would be appropriate to define methodological guidelines for establishing prospective data at individual entity level, so as to ensure the comparability with other entities and the overall consistency required for the public sector. The definition of methodological guidelines would require the active monitoring role of entities responsible for macro-economic and statistical studies or forecasts in consultation with the standard-setter.

The disclosure requirements for principles and methodologies should include information on demographic and macro-economic assumptions adopted and their consistency (as for the actuarial assumptions in IPSAS 25 “Employee Benefits” (paras.85-90)). In particular, where demographic or macro-economic projections are made at national level their use by an individual entity should be recommended.

In addition, the Council believes that because of the diversified nature of the sustainability information presented which, in any case, is not limited to accounting information (macro-economic and demographic projections, estimation of future expense) the subject of how the prospective data relate to accounting and budgetary information could have been dealt with in the requirements for principles and methodologies. In particular, the principles for drawing up prospective data based on the accounts should be clarified.



## FRENCH VERSION

Nous vous prions de bien vouloir trouver ci-joint la réponse du Conseil de normalisation des comptes publics (CNOCP) sur l'exposé sondage susmentionné.

A titre liminaire, le Conseil félicite l'IPSAS Board de la publication de cet exposé sondage, dont les dispositions et analyses mettent en évidence la spécificité du secteur public en matière d'information comptable, financière et économique.

Le Conseil approuve le statut de l'exposé sondage soumis à consultation, à savoir une « recommandation », puisque la présente consultation ne s'inscrit pas dans le cadre des compétences de normalisation comptable de l'IPSAS Board.

Le Conseil est en accord également avec le constat effectué par l'IPSAS Board qui est que « *les états financiers ne peuvent apporter toute l'information nécessaire aux utilisateurs en ce qui concerne les dispositifs sociaux* ». Le Conseil est en conséquence favorable à ce qu'un document complémentaire et distinct des états financiers d'une entité en éclaire la lecture et en élargisse la portée à l'aide de données financières prospectives, pour autant que le périmètre de ces données prospectives soit similaire à celui des états financiers et prenne appui sur les données comptables.

Or le Conseil estime que la notion de « soutenabilité » n'a de sens que pour le secteur public dans son ensemble ou tout du moins à un degré d'agrégation qui prenne en compte l'ensemble des décideurs en matière de dépenses et de recettes ; c'est d'ailleurs l'approche retenue par les Etats membres de l'Union européenne et la Commission européenne dans le cadre du rapport triennal sur les dépenses liées au vieillissement et sur la soutenabilité, les données de soutenabilité étant établies pour l'ensemble des administrations publiques. Ainsi, la publication d'informations relatives à la soutenabilité des finances publiques paraît pertinente uniquement à un certain niveau d'agrégation et de consolidation et pour certaines



entités ayant un réel pouvoir propre d'adaptation de leurs dépenses et de leurs recettes, qui devraient être d'un nombre limité en pratique.

Cependant, au niveau de chacune des entités du secteur public (et en particulier de celles, nombreuses, financées de manière principale par des transferts), le Conseil est d'avis que des données prospectives, autres que des données de soutenabilité « stricto sensu » et prenant appui sur les données comptables, pourraient venir éclairer les états financiers. Ce constat s'applique en particulier aux entités qui délivrent des services (sur lesquels elles ont un pouvoir de décision ou non) et dont le financement s'effectue principalement soit par des transferts effectués par d'autres entités publiques soit par des ressources fiscales qui leur sont affectées (sans qu'elles détiennent pour autant le pouvoir de lever l'impôt ou les taxes elles-mêmes). Pour ces entités, les projections de dépenses futures, l'identification des sources de financements futurs et des analyses de vulnérabilité aux transferts effectués par d'autres entités publiques seraient utiles à l'utilisateur des états financiers. Ces données prospectives communiquées au niveau d'une entité constitueraient un prolongement pertinent complémentaire aux données de soutenabilité établies par ailleurs à un niveau agrégé.

Enfin, le Conseil note que la recommandation ne définit pas de règles ou principes pour l'établissement des données de soutenabilité, compte tenu de leur caractère spécifique et non comptable, mais préconise de présenter les principes et méthodologies utilisées. Il conviendrait néanmoins de définir un cadre méthodologique pour l'établissement des données prospectives au niveau d'une entité, afin de permettre la comparabilité entre entités et de garantir la cohérence d'ensemble. En particulier, lorsque des projections démographiques ou macroéconomiques sont définies à un niveau national, celles-ci devraient être utilisées préférentiellement par l'ensemble des entités, sauf à justifier de données ou hypothèses différentes. La définition d'un tel cadre méthodologique nécessiterait la mobilisation des entités en charge de travaux de nature macroéconomique, statistique ou prévisionnelle, en concertation avec les entités en charge de la normalisation comptable.



## ANNEXE 1

### RÉPONSES AUX QUESTIONS POSÉES DANS L'EXPOSE-SONDAGE

#### QUESTION 1

**Approuvez-vous les caractéristiques présentées dans le §15 permettant de déterminer, pour une entité donnée, s'il existe des utilisateurs d'une information sur la soutenabilité à long terme des finances ? Si vous pensez qu'il existe des indicateurs plus pertinents, merci de les indiquer.**

Voir annexe 2 - Commentaires détaillés : Critères permettant de déterminer quand un rapport sur la soutenabilité doit être établi (§14-16)

#### QUESTION 2

**Etes-vous d'accord avec le fait que les « dimensions » de la soutenabilité fiscale à long terme décrites dans les § 27 à 37 fournissent un cadre approprié pour la partie descriptive du rapport sur la soutenabilité à long terme des finances d'une entité du secteur public ? Dans le cas contraire, comment amenderiez-vous l'approche ?**

Voir annexe 2 - Commentaires détaillés : Traiter les dimensions de la soutenabilité fiscale (§27-37)

#### QUESTION 3

**Etes-vous d'accord avec les lignes directrices définies dans l'exposé sondage s'agissant de la présentation des principes et méthodologies, y compris celles relatives aux risques et incertitudes ? Dans le cas contraire, comment modifieriez-vous ces lignes directrices ?**

Voir annexe 2 - Commentaires détaillés : Présentation des principes et méthodologie (§37-51)



## ANNEXE 2

### COMMENTAIRES DÉTAILLÉS

#### **Objectif (§1)**

Le Conseil approuve le constat effectué par l'IPSAS Board dans le paragraphe BC3 du fondement des conclusions de l'exposé sondage, qui est que « *les états financiers ne peuvent apporter toute l'information nécessaire aux utilisateurs en ce qui concerne les dispositifs sociaux* ». Le Conseil est en conséquence favorable à ce qu'un document complémentaire et distinct des états financiers d'une entité en éclaire la lecture et en élargisse la portée, à l'aide de données financières prospectives prenant appui sur les données comptables et établies sur un périmètre similaire à celui des données comptables. Il pense en outre qu'il serait utile, en complément, que le sujet du traitement comptable applicable aux dispositifs sociaux soit inscrit au programme de travail de l'IPSAS Board.

Le Conseil pense néanmoins que l'objectif de la recommandation, qui est d'établir un rapport sur la soutenabilité à long terme des finances d'une entité du secteur public, ne répond que dans un nombre de cas limité (c'est-à-dire uniquement pour certaines entités répondant aux critères définis dans la recommandation et à un certain niveau d'agrégation) à la préoccupation initiale de l'IPSAS Board, à savoir de compléter et éclairer les états financiers des entités du secteur public.

Le Conseil est en conséquence d'avis qu'il conviendrait d'étudier la possibilité que les informations prospectives venant éclairer les états financiers puissent comporter des données autres que celles relatives à la soutenabilité « stricto sensu », par exemple des projections de dépenses, accompagnées du mode de financement prévu pour y faire face ainsi que des analyses de vulnérabilité.

#### **Statut et périmètre (§2-6)**

Le Conseil approuve le statut de l'exposé sondage soumis à consultation, à savoir une « recommandation » (« *proposed recommended practice guideline* »), puisque la présente consultation ne s'inscrit pas dans le cadre des compétences de



normalisation comptable de l'IPSAS Board, mais dans celui de la faculté qui lui est reconnue de délivrer des recommandations sur des informations financières extérieures à ce champ.

Il conviendrait cependant de clarifier le statut et les caractéristiques d'un rapport établi en application d'une recommandation et non d'une norme. En particulier, il serait utile de préciser si le rapport sur la soutenabilité à long terme des finances d'une entité du secteur public est inclus dans le périmètre des « rapports financiers à portée générale » (« *General Purpose Financial Reporting* »), ce qui, au regard des orientations envisagées pour le futur cadre conceptuel du référentiels IPSAS, impliquerait que celui-ci réponde à un certain nombre de caractéristiques qualitatives<sup>4</sup>. Or, le Conseil est d'avis que les caractéristiques qualitatives comptables ne s'appliquent pas aux « rapports financiers à portée générale ». Au cas particulier, les données de soutenabilité étant établies, entre autres, sur la base d'hypothèses macro-économiques et statistiques issues, dans certains cas, de travaux relatifs à la comptabilité nationale (i.e. élaborées selon des règles et principes propres à ce référentiel), les caractéristiques qualitatives comptables ne leur sont pas applicables.

Le Conseil rappelle en outre qu'il partage le point de vue exprimé dans l'exposé sondage sur les « Caractéristiques clés du secteur public », qui souligne l'importance du vote du budget pour les entités publiques, car c'est au moment de sa discussion qu'une analyse de la soutenabilité peut être le plus utile pour orienter les choix en dépenses et en recettes. Il serait souhaitable dès lors que le sujet du lien entre ce processus et la publication d'informations sur la soutenabilité soit évoqué et analysé.

### **Définitions (§7-9)**

S'agissant de la définition de la « soutenabilité à long-terme des finances », le Conseil pense qu'il serait utile de préciser la notion de « long terme », plusieurs approches pouvant être envisagées.

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<sup>4</sup> Il est fait référence à « la sincérité » dans le §27 de l'exposé sondage.



En outre, il est à noter que l'exposé sondage utilise indifféremment les termes « soutenabilité à long terme » (titre de l'exposé sondage, §1, §14, §16, §17,...) et « soutenabilité budgétaire à long terme » (§7, §15,...).

S'agissant de la définition des « flux entrants » et des « flux sortants », l'utilisation de la notion d' « équivalents de trésorerie », et ce qu'elle vise précisément, devrait être expliquée dans les fondements des conclusions.

### **Bornes du rapport (§10-13)**

L'exposé sondage prévoit que le périmètre des états financiers et du rapport sur la soutenabilité à long terme des finances d'une entité du secteur public soient identiques, mais admet des exceptions importantes à ce principe, comme l'utilisation de données issues de la comptabilité nationale ou l'alignement sur le « secteur budgétaire ». Or, le Conseil est d'avis que le périmètre des données de soutenabilité d'une entité doit être similaire à celui de ses états financiers et les données prospectives qu'il contient doivent prendre appui sur les données comptables ; dans le cas contraire, le document établi sort du champ de compétence de l'IPSAS Board et ne relève pas du champ d'application de la présente recommandation.

### **Critères permettant de déterminer quand un rapport sur la soutenabilité doit être établi (§14-16)**

Comme cela a été mentionné *supra*, le Conseil pense qu'il est susceptible d'exister des utilisateurs de données financières prospectives pour des entités qui présentent des caractéristiques autres que celles définies dans le §15 de l'exposé sondage. Ce constat s'applique en particulier aux entités qui délivrent des services (sur lesquels elles ont un pouvoir de décision ou non) et dont le financement s'effectue soit par des transferts effectués par d'autres entités publiques soit par des ressources fiscales qui leur sont affectées (sans qu'elles détiennent pour autant le pouvoir de lever l'impôt ou les taxes elles-mêmes). Pour ces entités, les projections de dépenses futures, l'identification des sources de financements futurs et des analyses de vulnérabilité aux transferts effectués par d'autres entités publiques peuvent intéresser l'utilisateur des états financiers.



S'agissant des critères permettant de déterminer, pour une entité donnée, s'il est pertinent d'établir une information sur la soutenabilité à long terme des finances, le Conseil propose de retenir deux critères faisant directement référence aux flux entrants et sortants définis au §7 de l'exposé sondage :

- (c) maîtrise des flux de ressources : pouvoir significatif de lever l'impôt ou d'autres revenus ou possibilité de recourir à l'emprunt ;
- (d) large pouvoir de décision sur les flux de dépenses<sup>5</sup>.

Il conviendrait en outre de préciser que dans la majorité des cas, les deux critères doivent être cumulés (la réalisation d'un seul des critères relevant *a priori* de l'exception).

En complément des critères, le Conseil pense qu'il serait utile de recommander l'utilisation de seuils (montant des ressources, nombre d'administrés, ...) limitant aux entités « de taille significative » l'établissement de données prospectives.

Enfin, le Conseil estime que la recommandation devrait mentionner que les données de soutenabilité, pour le secteur public, trouvent généralement leur sens le plus pertinent lorsqu'elles sont établies en complément de comptes consolidés<sup>6</sup>, compte tenu du caractère particulier et souvent complexe des liens existants entre les administrations publiques (qui fournissent dans de nombreux cas des services sur lesquelles elles n'ont pas de pouvoir de décision) et de leurs sources de financement (par transferts de ressources, impôts affectés,...).

### **Présentation des prévisions de dépenses et de recettes (§17-26)**

Le Conseil approuve les dispositions prévues dans l'exposé sondage. Il regrette néanmoins que l'IPSAS Board ne fasse pas référence, comme élément de réflexion, à l'indicateur de soutenabilité utilisé par l'Union européenne, c'est-à-dire une évaluation de la réduction du déficit nécessaire pour assurer la stabilité du ratio dette / produit intérieur brut (ou du ratio dette nette / ressources totales, au niveau d'une entité donnée).

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<sup>5</sup> Le pouvoir de décision sur les flux de dépenses peut prendre la forme d'un pouvoir de décision sur l'adaptation des prestations ou services fournis.

<sup>6</sup> Au niveau local ou au niveau national, pour l'ensemble des administrations publiques.



### **Traiter les dimensions de la soutenabilité fiscale (§27-37)**

Le Conseil approuve les deux dimensions de la soutenabilité relative à la « capacité fiscale » et la « vulnérabilité ».

S'agissant de la « capacité de service » (« *service capacity* »), le Conseil note qu'il s'agit d'un indicateur dont la portée dépasse le domaine strictement financier. En effet, la capacité à maintenir en qualité et volume un service repose à la fois sur des niveaux de ressources et d'investissement, sur l'évolution des coûts et sur des actions d'amélioration et de rationalisation des services publics. Or la présentation de cet indicateur dans le §32 induit que l'évaluation de la capacité de service repose principalement sur la projection d'un niveau de ressources.

### **Présentation des principes et méthodologie (§37-51)**

Le Conseil note que la recommandation ne définit pas de règles ou principes pour l'établissement des données de soutenabilité, compte tenu de leur caractère spécifique et non comptable, mais préconise de présenter les principes et méthodologies utilisées. Il conviendrait néanmoins de définir un cadre méthodologique pour l'établissement des données prospectives au niveau d'une entité, afin de permettre la comparabilité entre entités et de garantir la cohérence d'ensemble, qui est nécessaire s'agissant du secteur public. La définition d'un tel cadre méthodologique nécessiterait la mobilisation des entités en charge de travaux de nature macroéconomique, statistique ou prévisionnelle, en concertation avec les entités en charge de la normalisation comptable.

Les dispositions relatives à la présentation des principes et méthodologies devraient inclure des éléments relatifs au choix des hypothèses démographiques et macro-économiques et à leur cohérence (comme le fait la norme IPSAS 25 « Avantages au personnel » (§85-90) s'agissant des hypothèses actuarielles). En particulier, lorsque des projections démographiques et macro-économiques sont définies à un niveau national, il conviendrait de recommander que celles-ci soient utilisées par l'entité.



Le Conseil pense en outre que compte tenu de la nature diverse, et en tout état de cause non limitée au domaine comptable, des informations de soutenabilité (projections macro-économiques, démographiques, estimation des futures dépenses,...) le sujet de l'articulation entre d'une part les données prospectives et d'autre part les informations comptables et budgétaires aurait pu être évoquée dans les dispositions relatives aux principes et méthodologies. Il convient en particulier que les principes d'articulation entre les informations comptables sur lesquelles les données prospectives prennent appui soient explicités plus clairement.



Paris, 29 Feb., 2012

## **Advisory Committee on Public Sector Accounting Standards**

*The President*

**Subject: IPSAS Board Recommended Practice Guideline on reporting on the long-term sustainability of a public sector entity's finances**

This document is the Cour des Comptes' reply to the IPSAS Board Recommended Practice Guideline on reporting on the long-term sustainability of a public sector entity's finances.

Within the Cour des Comptes, the *Comité consultatif des juridictions financières sur la normalisation des comptes publics* (Financial Court Advisory Committee on Public Sector Accounting Standards) prepares opinions on matters relating to accounting standards for the three public administration sectors, namely Central Government, regional and local authorities and social security. The committee prepares the positions which will be upheld by Financial Court representatives on various standards organizations.

In addition to its reply (28 April 2010) to the previous consultation paper on this subject, the Cour des Comptes notes the advantages of the IPSAS Board's initiative at a time when many Governments have been hit by economic and financial crisis.

The Cour des Comptes basically approves the IPSAS Board Guideline, subject to consideration of the three following points:

- tools for reporting on the sustainability of public sector finances are already available within the European Union;
- methodological aspects should not be underestimated as they are the chief source of problems in this area, more so, in fact, than the presentation issues

addressed in the Guideline;

- there is a need for overall consistency between financial statements - the balance sheet and notes in particular - and sustainability reporting.

These three points are discussed in detail below.

The replies to the three specific questions asked in the Guideline are attached to this document.

### **1 – Reference to obligations already existing within the European Union on this subject**

When obligations regarding the long-term sustainability of public sector finances already exist under national laws, including commitments under European Union agreements, it is proposed that the Guideline should indicate that the IPSAS Board's recommendation does not contradict, but rather acknowledges them.

For example, Council Regulation (EC) No. 1466/97 on the surveillance of budgetary positions, as amended on 16 November 2011, stipulates that stability programmes submitted by Member States to the European Commission include information on implicit liabilities related to ageing populations. In practice, the European Commission publishes a report on the sustainability of public sector finances in the European Union every two or three years. This report describes the sustainability analysis method used and gives the results obtained for each Member State based on standardized economic assumptions, in particular potential economic growth. The stability programmes then update the results every year.

This information could be given in an illustrative annex to the Guideline.

### **2 – Methodological aspects are key and must be made explicit**

The Guideline focuses mainly on reporting in terms of presentation, which is justified, but the IPSAS Board does not address the methodological aspects in any real depth. In particular, macroeconomic forecasts must be taken into account in projections of revenue and certain types of expenditure and standardized on a national or, as in the European Union, supranational level.

If the entity concerned by the report to be submitted has several activities (for example, if it is responsible for providing several services or makes transfers with differing characteristics), then substantial problems need to be solved (such as the period covered by projections).

The Guideline should mention these technical matters and the need to explain how they are dealt with.

### 3 – Consistency with financial statements must be sought

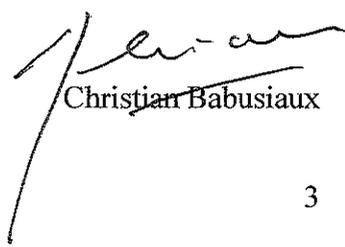
Lastly, sustainability reports must be tied in with accounting reports.

As the Cour des Comptes mentioned in its reply to the previous consultation, sustainability reports can be divided into several broad categories:

- reports included in the actual financial statements (GPFS) in the entity's balance sheet liabilities and off-balance sheet commitments mentioned in the notes;
- short- or medium-term reports that could be provided in the notes to financial statements, in relatively precise thematic notes on some or all major public policies, making use of non-accounting information and assumptions but drawing chiefly on accounting sources; this type of report could apply particularly to certain transfer mechanisms or categories of mechanisms; it could thus be seen as an inventory of significant items of sustainability rather than a measurement of overall sustainability;
- long-term reports showing “discounted financing needs” or “increased resource needs”, expressed in relation to national wealth or income and corresponding to expenditure funded by appropriated resources (this can be the case for certain types of transfers or retirement or social schemes); this type of report can also be considered as an inventory of sustainability items, some of which can be provided in the notes to financial statements (this is the case in France for the 100-year discounted financing need for Civil Servants' pensions provided in the notes to the Central Government Financial Statements);
- another type of long-term report, this time macroeconomic and general, calling for “heavier” non-accounting items and assumptions, such as that included in the case of EU Member States in the above-mentioned reports of the European Commission on the Sustainability of Public Finances.

The Guideline should mention these required categories of report and recommend that for each one the relative level and degree of consistency with financial statements be indicated.

In view of the significance of “social benefits” in public sector accounts, both in financial statements and in terms of long-term budgetary sustainability, the Cour des Comptes draws attention to the impact an accounting standard would have in this area. With regard to the ongoing talks on the conceptual framework, the Cour des Comptes wishes the IPSAS Board to continue its work, paying particular attention to consistency between financial statements and reporting on the sustainability of public sector finances.

  
Christian Babusiaux

### **Annex: Particular points submitted by the IPSAS Board for comment**

- 1) *“Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.”*

Reply: Yes. Of the three criteria put forward (significant power to levy taxes or other resources, power to create debt and broad decision-making power on levels of service provision), the second (power to create debt) appears vital with regard to sustainability reporting.

- 2) *“Do you agree that the « dimensions » of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?”*

Reply: Yes. Subject to the comments made above, namely that other “dimensions” be defined in a national or supranational regulatory framework, as in the case of European Commission reporting on the sustainability of public sector finances in the EU.

- 3) *“Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?”*

Reply: Yes.