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449 Lewis Hargett Circle
Suite 290
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Phone: (859) 276-0686
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www.governmentauditors.org
[memberservices@
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February 27, 2012

Ms. Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Re: Response to the International Public Sector Accounting Standards Board
Exposure Draft, *Reporting on the Long-Term Sustainability of a Public Sector
Entity's Finances*

Dear Ms. Fox:

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the International Public Sector Accounting Standards Board (IPSASB) Exposure Draft 46, *Proposed Recommended Practice Guideline – Reporting on Long Term Sustainability of a Public Entity's Finances*. Our organization represents 300 audit organizations, totaling more than 1,750 members.

We acknowledge the importance of financial sustainability reporting. In providing our comments we have made use of the current Governmental Accounting Standards Board (GASB) Preliminary Views on *Economic Condition Reporting: Financial Projections*, the International Consortium on Governmental Financial Management's (ICGFM) response, and credit rating agencies' publications, specifically Moody's Rating Methodology.

Our response to the three Specific Matters for Comment is as follows:

- ✓ **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.*

While inclusive, we see these indicators as too broad, and we suggest they include additional information to increase their meaning. For example,

consider the following: (1) an entity can have significant tax and/or other revenue raising powers, but if these are concentrated in an area that is vulnerable to economic shifts, government regulations, natural disaster, or attack they can abruptly be lost; (2) an entity's power to incur debt can be vulnerable to political pressures and public sentiment, which is not clear in the guideline; and (3) many sub-national government entities have wide decision-making powers over their service delivery levels but are heavily reliant on federal funding, making them vulnerable to policy shifts. Including additional information would make this guideline a better tool for conducting long-term financial stability assessments.

We also believe the users included in the general purpose external financial reporting (GPEFR) Concepts Statement 1 and Concepts Statement No. 3, Communication methods in General Purpose External Financial Reports that Contain Basic Financial Statements should be included as users within the guideline.

- ✓ **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 agree with the dimensions presented but believe they are not sufficient. To be sustainable the government must be able and willing to generate inflow needed to maintain service commitments and meet financing obligations as they come due while maintaining a balanced inter-period and intergenerational fiscal structure. This is particularly relevant for entities with strong ties to international markets (a retirement fund holding European bonds, for example) or significant reliance on government transfers. All public entities are subject to these risks in some way, and you should address them in their narrative discussion. It should also address reduced requirements that may result from the sustainability services and initiatives of that governmental entity. Furthermore, the definition of long-term fiscal sustainability on page 5, paragraph 7 should be more robust. Consider referencing to the “dimensions” of long-term fiscal sustainability to further clarify the definition of sustainability, which should address the transferring of benefits to future periods as well as the reduction of obligations.

- ✓ **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?*

Overall we agree with the guidelines; however, the IPSASB should consider providing an overarching differentiation between national and sub-national level public sector entities, due to the fundamental differences in the entities debt holding, borrowing, and revenue raising capabilities. These differences could have an effect on long-term fiscal sustainability, and by providing a differentiation through additional language within the guideline or within a separate document could improve the applicability of the guide and simplify the process of long-term fiscal sustainability reporting for those entities. In addition, consider providing example illustrations and narrative, possibly of current affairs, for demonstrative purposes.

In addition, we have some comments for the IPSASB to consider that are outside of the Specific Matters for Comment, which are as follows:

- ✓ In order for this exposure draft to best outline financial sustainability reporting procedures for public entities, we concur with the GASB Preliminary Views on *Economic Condition Reporting: Financial Projections* and the alternative view expressed by Mr. David Bean on page 21 of the exposure draft that public entities should be required to report on fiscal sustainability. However, we still agree with paragraphs 14-16 for determining whether the public entity needs to report on fiscal sustainability. If the capacity exists for a public sector entity to issue a fiscal sustainability report, as evident by the entity's ability to issue general purpose financial statements, it should be expected to do so in order to meet standards. Issuing voluntary compliance guidelines generally indicates some entities will opt out for various reasons.
- ✓ In addition to the two types of public bodies where there are current problems – sub-national entities, such as some trusts, and sovereign governments unable to service their debt – a third category should be considered. This would be the consideration of governments, especially municipalities that have balanced efforts in sustainability including the environment, social equity and the economy. While the emphasis is on not meeting obligations we should also look at benefits exceeding obligations.
- ✓ Reporting Boundary Section, page 6, paragraph 13 – Consider including explanatory language that the budget is primarily concerned with fiscal discipline in the short or medium-term while fiscal sustainability is concerned with the long-term.

- ✓ Presenting Projections of Prospective Inflows and Outflows, pages 7-8 –
 - Paragraph 18 could be improved by including independent credit evaluations (e.g. rating firms such as Moody’s and, S&P) of similar public entities as an additional model to reduce reporting costs. These evaluations are a type of sustainability report, although focused on the senior obligations they are addressing. Nonetheless, they are of value.
 - While we acknowledge that relevant time periods differ across entities, we believe the definition should at least somewhat limit the extent to which it can be interpreted. The “long-term” can be interpreted as anything beyond the budgetary or financial period, so we believe this guideline could benefit from more clearly defining this period of time.
 - Consider including Gross Domestic Product (GDP) in paragraph 20.

We appreciate the opportunity to respond to this exposure draft.

Respectfully Submitted,



Kristine Adams-Wannberg
Chair, Professional Issues Committee