

28 February 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

**Exposure Draft 46: Proposed Recommended Practice Guide:
Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

ACAG strongly supports the IPSASB's project to develop guidance for the reporting on the long-term sustainability of public finances. As noted in our response to *Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*, ACAG considers that user's information needs about the future are not well addressed in general purpose financial statements. This exposure draft is a positive first step in addressing this deficiency.

However, ACAG also believes there are a number of areas where the guidance could be enhanced to further assist public sector entities in preparing reliable, relevant and comparable information.

I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Exposure Draft 46: Proposed Recommended Practice Guide: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

As noted in our response to *Exposure Draft: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (CF Phase 2), ACAG considers that public sector reports have a wide range of primary users. These users typically require information about the past (for accountability purposes) and information about the future (to assess the long-term sustainability of government and service delivery). While general purpose financial statements (GPFSSs) currently help to address information needs about the past, there is an urgent need to address user's prospective information needs. Therefore, ACAG strongly supports the IPSASB's project on long-term sustainability reporting.

However, ACAG considers some guidance in the exposure draft to be too broad, which could lead to a wide variety of reporting by entities. This diversity could impact the understandability and comparability of sustainability reports. For example, the lack of tighter guidelines could lead to public sector entities preparing their initial sustainability report based solely on those measures which reflect favourably on the entity. To a lesser extent, a user may be interested in comparing sustainability reports across jurisdictions, such as federal, state and local government. Without some minimum disclosure requirements, comparisons may be impracticable. To address this, ACAG provides the following comments.

ACAG also notes that while the guidelines are an appropriate first step, the IPSASB should consider introducing more authoritative requirements as sustainability reporting matures.

Projections

ACAG agrees with the proposition in paragraph 17 that the core information presented on long-term sustainability will be projections of inflows and outflows commencing from the current reporting period. The importance of long-term projections was highlighted in our response to *CF Phase 2* that proposed entities produce more prospective information, including projections of future commitments (both financial and service delivery related). This would allow users to assess the long-term viability of current policy choices made by the reporting entity.

Given the critical importance of these projections ACAG believes further guidance can be given to ensure consistency of long-term sustainability reporting.

ACAG recommends all sustainability reports include a tabular presentation of inflows and outflows across a time horizon. These projections should be initially based on the amounts included in the audited GPFSSs. All projections should then be determined by applying the same policies and IPSAS applied in the GPFSSs, allowing for early adoption of new and revised standards. Practically, this would be achieved by extrapolating the current year actuals and adjusting for factors such as demographic changes, inflation etc (consistent with paragraph. 44). Where an entity prepares GPFSSs on accrual basis, the projections would be prepared also on an accrual basis. On the other hand, where an entity prepares GPFSSs using cash based IPSASs, sustainability would be limited to a tabular report prepared on a cash basis.

ACAG acknowledges the exposure draft focuses on cash based projections but believes there is benefit in aligning the basis of preparation with other financial reports produced by the entity.

One deficiency with current public sector reporting is the lack of any meaningful link between the various financial reports produced. If budgets, sustainability reporting and GPFS are prepared on different bases, this can significantly impact the comparability and understandability of the reports.

A number of entities may also produce budgeted information on a comparable basis to the sustainability report. Where the budget and sustainability report are prepared on a comparable basis, ACAG recommends the sustainability report should also include, at a minimum, those aggregates disclosed in budgeted information. This will assist users by providing a link between prospective information included within the budget and long-term sustainability reporting.

Projections should also be based on current service delivery levels unless the entity can prove they are committed to reducing or enhancing a service delivery initiative. In such cases the planned reduction or enhancement should be disclosed in notes supporting the projections.

Sustainability information within GPFSs

ACAG recommends that the IPSASB guidance should also require that where information on long-term sustainability is included within the GPFSs, it is clearly demarcated from audited financial information. In addition preparers should clearly indicate that the projections are outside the scope of the audited financial statements and state that such information has not been audited.

ACAG also provides the following comments in response to specific questions raised by the IPSASB.

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 the characteristics identified appear reasonable, ACAG is concerned their inclusion may discourage some entities from preparing long-term sustainability information.

Information on long-term sustainability would most likely be presented at whole-of-government levels. In Australia this would be at the federal, state and/or local government level. However, other entities may also wish to prepare sustainability reports based on their particular users' needs. These entities should be encouraged to present sustainability information that complies with the guidelines. ACAG considers the inclusion of a scope clause may have the opposite effect and discourage those entities from preparing reports if they consider that they are 'not in scope'.

To address these concerns, alternative wording for the characteristics paragraph could be as follows:

“This Recommended Practice Guide was designed to be applied at whole-of-government levels. Other entities may also prepare long-term fiscal sustainability information where it meets their particular users' needs.”

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?

ACAG agrees with the dimensions outlined in paragraphs 27-37.

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?

ACAG agrees with the ED guidelines and recommends that entities should also be required to disclose reductions and/or enhancements to service delivery built into projections. Examples of where disclosure should be required include where an entity:

- does not obtain any external assurance on the projections;
- projects reduced outflows in future years due to anticipated efficiencies or cost saving measures;
- does not project a particular program in future years; and/or
- projects new programs which the government is committed for future years. (This could be achieved by including new programs in a separate line item.)

These disclosures will further assist users in understanding the assumptions and judgements applied to projected amounts.