

## **IPSASB EXPOSURE DRAFT 46 OCTOBER 2011: “REPORTING ON THE LONG-TERM SUSTAINABILITY OF A PUBLIC SECTOR ENTITY’S FINANCES”**

IRE (Institute of Registered Auditors Belgium, *Institut des Réviseurs d'Entreprises*) is pleased to submit its comments on the IPSASB Exposure Draft 46 ‘*Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances*’.

This exposure deals with the financial forecast reporting ( ex-ante reporting) whereby a proposal is made to systematically add such reporting on financial prospective information to the more traditional (i.e. ex post reporting) by means of the financial statement.

The present comment covers the Specific Matters presented for Comment under item 3.3 of the exposure draft. We take the liberty to also present a series of more general comments.

### **1. Specific Matters for Comments**

#### **Specific Matters for Comment 1** (paragraph 15).

*There are likely to be users for long-term fiscal sustainability information with following characteristics: do you agree with these characteristics?*

- (a) Significant tax and/or other revenue raising powers
- (b) Powers to incur debt
- (c) Wide decision-making powers over service delivery levels

Comment 1 : We do not have any specific comments on this paragraph.

#### **Specific Matters for Comment 2** (paragraph 27-37)

*Do you agree that the dimensions on long-term sustainability 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?*

Paragraph. 27: the fiscal sustainability is subdivided as follows:

- Fiscal capacity = ability to meet servicing and repayment of debt and liabilities without increasing level of taxation
- Service capacity = extent to which (a) the entity can maintain services to current recipients at the reporting date and (b) meet obligations related to entitlement programs for current and future beneficiaries
- Vulnerability = (a) extent to which an entity is fiscally dependent upon funding sources outside its control (e.g. intergovernmental transfers) and (b) extent to which an entity has powers to vary existing taxation levels or other revenue sources.

We have 3 comments on this paragraph.

### Comment 2:

The break-down into these 3 elements is acceptable. Other sources may use different criteria, which are similar, because this matter is still in an exploratory phase. For example, the Canadian CICA<sup>1</sup> uses another rather approximate typology (in each case indicators are also shown):

Sustainability= the extent to which the government can maintain existing programs and activities and meet the financial requirements without increasing the financing burden.

1. Debt/ GDP
2. Deficit / GDP

Flexibility = the extent to which government can increase its financial resources in response to an increase of its obligations by increasing its revenue or the financing burden.

3. Debt Service/Revenue
4. Changes in Fixed Assets
5. Own Revenue/GDP

Vulnerability = the extent to which government depends on financial sources which are out of its control or out of its influence.

6. Transfert between governments/ Own Revenue
7. External Debt/Debt
8. Debt in foreign currency/Debt

### Comment 3

As oppose to e.g. CICA 1997, IPSAS ED 46 remains vague or even very vague as to which indicators could be considered as the best practice to measure “fiscal sustainability”.

### Comment 4

Comparing once again with CICA 1997, IPSAS ED 46 deals succinctly with the concept of “fiscal sustainability”, while this “fiscal” concept should be examined in a broader perspective (not purely from a financial budget concept point of view).

#### **Specific Matters for Comment 3 (par 38-51):**

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

Paragraph 38 refers to the need for accounting policies on how projections (for the future) are made, on the demographic and economic assumptions used in the financial provisions, as well as for instance the impact of legal decisions, inflation and discount rates, ...

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<sup>1</sup> Canadian Institute of Chartered Accountant (CICA), Research Report: Indicators of Government Financial Condition, 1997.

## Comment 5

No specific comment

## 2. General Comments

- The approach to mount a system of long term reporting and thus to develop a planning over several years is in line with the development of government reforms in e.g. Belgium and Flanders: long-term planning as programmed by local governments in Flanders, the Flemish Community.
- The exposure draft pays much attention to "Long-Term Sustainability" and the reporting related thereto. Taking into consideration scientific studies, earlier experiences and media coverage (see Greece and its financial condition reporting prior to inclusion in the euro zone), "earnings management", "creative accounting" or "window dressing" may be observed in the financial reporting by governments, a fortiori when reporting deals with prospective financial information.  
Paragraph 22 recognizes some risk of bias (skewness) to present a misleading favorable picture, but merely deduces from this the desire to use consistent reporting and formats.  
However, in the Institute's opinion there is an important need for high quality auditing and certification, the exposure draft pays little attention to.
- Regarding fiscal capacity, the paragraphs 29-30 shortly discuss the level of debt, but it remains unclear if the financial debt and debts due to purchases and services are eyed here, or rather the pension liabilities. The latter are very important and are traditionally not included in the national debt. A recent German study also suggested to include these liabilities and called it the "implicit debt". The exposure draft 46 could be more explicit on this matter.
- the GDP (Gross Domestic Product) approach as a macro-economic factor is treated insufficiently in this exposure draft 46. See, eg, CICA 1997, while GDP plays a truly major role.
- The approach of central governments whereby GDP, as macro-economic factor, plays an important role should in our opinion be better distinguished in the exposure draft 46 from the local authorities approach.  
Indeed, local authorities play a different role than central governments who often determine the monetary policy, the general taxation, etc.