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Our ref: Tech4/SC0094

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15 July 2008

Dear Stephenie Fox

<b>ED 34</b>	<b>Social Benefits: Disclosure of Cash Transfers to Individuals or Households</b>
<b>Consultation Paper</b>	<b>Social Benefits: Issues in Recognition and Measurement</b>
<b>Project Brief</b>	<b>Long-Term Fiscal Sustainability Reporting</b>

CIPFA is pleased to present its comments on these three papers, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

### **General Comment**

CIPFA strongly supports the Board in progressing these issues. Determining a consistent and conceptually sound basis for accounting for non-exchange transactions and balances is an area of major importance for the public sector, reflecting one of the key distinctive features of public sector business, much of which is not conducted through contractual exchanges. CIPFA was very pleased to comment on two earlier consultations by the IFAC Public Sector Committee in 2004 which covered non-exchange revenue and the social policy obligations of governments. The Board will also be aware of related work which was progressed in the United Kingdom, as one of the issues considered in consultations on a public benefit interpretation of the UK ASB Statement of Principles for Financial Reporting.

The Board followed up the 2004 consultations with Exposure Draft 29 and IPSAS 23 on Revenue from Non-Exchange Transactions.

Accounting for non-exchange expenditure and liabilities remains one of the unresolved issues of public sector financial reporting, and we are pleased to see that IPSASB is continuing its work in this area, both in its more general project to develop a conceptual framework for public sector financial reporting, and in specific work on the significant matter of social benefits.

### **ED 34 and the Consultation Paper**

Our responses to the two requests for specific comments are presented in Annex A and Annex B attached to this letter.

We note that the scope of the Exposure Draft is restricted to setting out proposals for specific disclosures outside the primary financial statements, and does not encompass the recognition and measurement of balance sheet liabilities. We appreciate that this was not the initial intention of the Board, and that this matter is being addressed (albeit on a slower timetable) through the Consultation Paper.

### **Proposed project on Long-Term Fiscal Sustainability Reporting**

CIPFA has also considered the proposed brief for a project on Long-Term Fiscal Sustainability Reporting. We certainly agree that information on the long term 'affordability' of government programmes is interesting and important, and that it is worth considering extending financial reporting to cover such information.

Developing meaningful fiscal sustainability reporting would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements. Appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens. Audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.

While we know that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed, having regard to the estimation uncertainties, political issues and jurisdiction specific nature of taxation and expenditures.

In the light of the above comments we observe that the Board has set itself a very ambitious task. However, the project brief recognises the risks and issues above, and clearly sets out the need to review the type of guidance which might be produced at a later stage. CIPFA therefore supports this project and we look forward to seeing a Consultation Paper in due course.

I hope these comments are a helpful contribution to the development of standards and other guidance

Yours sincerely

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**EXPOSURE DRAFT 34****SOCIAL BENEFITS: DISCLOSURE OF CASH TRANSFERS TO INDIVIDUALS OR HOUSEHOLDS****Specific Matters for Comment**

*The IPSASB would particularly value comment on whether ...*

*1. The scope of this ED is appropriate (paragraphs 2–8). If you do not think that the scope is appropriate please detail how you would modify the scope. Please state your reasons.*

We recognise that the Board wishes to produce useful guidance as soon as possible, and has elected to develop a limited scope standard for early implementation, while continuing to explore wider issues with a view to developing more comprehensive guidance later.

We accept the pragmatic line taken by the Board in taking forward these extremely complex issues.

*2. The new definitions in this ED at paragraph 10 are sufficiently clear and comprehensive. If you disagree, please indicate*

*(a) how these definitions should be modified and*

*(b) which new terms should be defined.*

*Please state your reasons.*

The definitions are sufficiently clear and comprehensive.

*3. The requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate (paragraphs 30–44). If you do not think that they are appropriate please indicate what those requirements should be. Please state your reasons.*

The requirements appear to be workable and appropriate. It would be helpful if the Basis for Conclusions for the final IPSAS could reinforce the point that these represent a pragmatic disclosure, rather than representing a preliminary view of the 'liability' which might be recognised in financial statements.

*4. The disclosure requirements in paragraph 45 are appropriate. If you think that they are unduly onerous, which disclosures should not be required? Conversely, if you think that the disclosures are inadequate, what further disclosures would you include? Please state your reasons.*

The disclosure requirements in paragraph 45 are appropriate, when taken in conjunction with the guidance in paragraph 47 which provides for materiality criteria to be used in determining the level of disclosure.

On a point of detail, we suggest that the paragraph 45(b) disclosure, which is defined in terms of 'eligibility at the reporting date', could be described more clearly by explicitly noting that it does not include anything in respect of payments which might be made to individuals or households which become eligible after that date.

*5. The disclosure requirements in paragraph 45 are going to provide information that is verifiable. If you think that the disclosure requirements are not going to provide information that is verifiable, please identify the specific disclosures and state what those implications are.*

In principle, the disclosure requirements should be verifiable, although there may be transitional difficulties.

*6. The implementation arrangements are appropriate (paragraphs 50–53). If the implementation arrangements are inappropriate, please specify how you would change them. Please state your reasons.*

The implementation arrangements are appropriate.

**CONSULTATION PAPER****SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT****Specific Matters for Comment**

*The IPSASB welcomes comments on all of the proposals in this Consultation Paper. Comments are most useful when they include the reasons for agreeing or disagreeing. If you disagree please provide alternative proposals.*

*1. Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state your reasons.*

The current implied conceptual framework for financial statements uses a definition of liability which does not encompass substantial government commitments, for example in respect of old age pensions and other long-term social benefits. These commitments are in principle avoidable, but in practice will often be unavoidable unless there are problems with affordability, when a special and problematic dialogue with citizens will be required. Information on these commitments is important information for citizens and policy makers. It could be attached to financial statements in management commentary or other reports, although there is no established methodology for presenting this information.

Current conceptual frameworks also do not address long term affordability issues. Affordability information is important, and under current frameworks could be included in management commentary.

*2. Do you think that a present obligation to individuals or households arises at any time for: a) Collective goods and services; and/or b) Individual goods and services? If you think a present obligation does arise for either (a) or (b) or both (a) and (b) please indicate when and indicate your reasons.*

In CIPFA's view it is very difficult to provide an objective answer to whether a government which represents and is funded by its citizenry has a present obligation to particular citizens in respect of non-contractual commitments which do not arise as a result of direct exchanges. We also consider that the nature of any such present obligation would be qualitatively different to the present obligations which arise in contractual arrangements in the for-profit sector.

The key question is whether information on an imputed obligation would be useful to readers of the financial statements, would aid accountability, and would be understandable by reference to other types of financial statements.

(a) Collective goods and services. It is clear that citizens will often have a strong expectation that certain collective goods and services be provided and continue to be provided. Nevertheless, we do not consider that it is useful to view the associated general commitment *to citizens* as reflecting a liability. Of course, in the process of providing such goods and services, governments will routinely make specific contractual commitments to employees and other parties, and at this point standard accounting for exchange transactions will apply.

(b) Individual goods and services. In our view it is useful to consider that a present obligation arises in respect of individual goods and services, primarily based on eligibility criteria being satisfied.

*3. Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for:*

*a) Non-contributory programs; and/or*

*b) Contributory programs?*

*If you think that a present obligation arises at an earlier point for (a) or (b) or both (a) and (b), please indicate that point and give your reasons.*

In our view it is useful to consider that a present obligation arises when all eligibility criteria have been satisfied.

For contributory programs, the primary question seems to be whether the contributory aspect has the effect of making the programme more like a contractual or quasi-contractual arrangement. If it does, then earlier or gradual recognition is probably appropriate, in line with current private sector treatment. Where the arrangement is more clearly a non-exchange transaction, then the issues appear to be the same as for non-contributory programs: the principal effect of the contribution is to increase the public expectation and appearance of 'unavoidability'.

*4. Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.*

Revalidation is often required as part of fraud prevention measures. Depending on the nature of the validation evidence and the purpose of the validation process, government authorities may allow validation to be carried out retrospectively, or may only allow validation to apply for future periods. Such specific considerations affect whether revalidation should be considered part of the entitlement criterion which triggers recognition, or an attribute which affects liability measurement, or perhaps a mixture of both.

*5. Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in Key Issue 6. Please state your reasons.*

A similar model was proposed by the UK Accounting Standards Board in its Exposure Draft "Statement Of Principles For Financial Reporting: Proposed Interpretation For Public Benefit Entities". The executory contract model provides conceptual support for current approaches to short term liabilities, while not requiring recognition of liabilities in respect of certain long term commitments. The results of using the model are financial reporting outcomes which CIPFA considers sensible.

Having said this, CIPFA's current thinking on these matters is more directly framed in terms of legal and constructive obligations, having regard to the fact that it is difficult for elected tax funded governments to recognise very long term constructive obligations to their electorate/taxpayers.

In CIPFA's response to the ASB consultation we noted that many stakeholders found the executory contract approach to be counter-intuitive and some suggested that it was conceptually flawed. The related guidance on liability and expenditure recognition was also considered difficult to apply. While CIPFA did not identify any examples where the guidance gave rise to inconsistencies, we suggested that more work would be required if this approach was to be applied.

CIPFA is therefore happy to support work in this area, but would note the need to address stakeholder concerns as described above.

*[Respondents] are also asked to provide details of current policies for recognizing and measuring liabilities for programs that deliver social benefits in your jurisdictions*

Current UK policies for recognising and measuring liabilities for programs that deliver social benefits are based on legal and constructive obligations, which in turn reflect mainly satisfaction of eligibility criteria.

In the case of short term benefits, this is normally associated with an application process or other validation. For long term benefits the eligibility criteria in effect include 'staying alive', so that no long term liability is recognised for old age pensions or similar programs.