THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

CS/PSC-SUB/mb

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Dear Stephenie

Exposure draft on "Social Benefits: Disclosure of Cash Transfers to Individual Households"
Consultation paper on "Social Benefits: Issues in Recognition and Measurement"
Project brief on "Long-term Fiscal Sustainability Reporting"

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 consultation on accounting for social benefits and long-term fiscal sustainability reporting. The Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.

The Institute's Charter requires it to act primarily in the public interest, and our submissions are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and 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.

Our comments on the consultation documents are set out below, with our comments on the two documents on social benefits dealt with together under the heading "Social Benefits: Disclosure, Recognition and Measurement".

Social Benefits: Disclosure, Recognition and Measurement

We recognise that developing a principles based approach to accounting for social benefits is a very significant challenge for IPSASB and that this is why an exposure draft on disclosure issues has been published prior to an exposure draft on recognition and measurement issues. This is an approach followed by other standard setters in dealing with more complex areas of accounting such as financial instruments. However, we would not support the issuance of a separate standard on the disclosure of social benefits in advance of a standard on recognition and measurement. There is a risk that social benefit liabilities, which are initially disclosed off balance sheet, are constructed in such a way that the debate on their recognition and measurement moves further away from existing accounting practice to the extent that the financial statements of public sector entities become misleading.

In our view, the social benefits project is mixing financial reporting with budgeting and long-term fiscal sustainability issues. There are already examples in the UK where unfunded occupational pension liabilities have been brought onto the balance sheet of public sector entities. In such instances there is a sense that this approach distorts the financial statements and makes these less meaningful: this issue would be exacerbated by the recognition of social benefits where the liabilities are potentially infinite. We believe that social policy commitments, including state pension benefits, could be considered to reflect political promises rather than financial liabilities as governments may have the power to amend existing arrangements.

We are concerned that the proposals will not improve the quality of financial reporting by the public sector and would probably be exceedingly costly to implement. The personal nature of the calculations suggested in the exposure draft on disclosure would be a contributory factor to the cost. The nature of the calculations is also unlikely to result in particularly meaningful figures as the individuals receiving benefits during a particular financial year will not be exactly the same as the individuals receiving these benefits in future financial reporting periods, although under the proposals estimated figures based on these same individuals would also cover future periods. However, we are not against a degree of narrative reporting on social benefits within the financial statements of public sector entities linked to liabilities reported in the financial statements.

We favour an approach to accounting for social benefits that remains focused on the statement of financial performance and deals with an entity's income and expenditure, including the recognition of provisions which are currently recognised under existing accounting policies.

Long-term fiscal sustainability reporting

We fully support IPSASB's plan to undertake a project on long-term fiscal sustainability reporting. The project brief is comprehensive and we have no particular comments to make on the scope of the project. However, we believe that it would not be appropriate for any subsequent reporting standard on the topic to be mandatory. We would be concerned that such an approach could discourage the adoption of International Public Sector Financial Reporting Standards (IPSASs).

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We recognise that this is a challenging project and look forward to participating further in the consultation process which is to accompany it.

Please do not hesitate to contact me if you would like to discuss any of our comments further.

Yours sincerely

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