

7 April 2010

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Dear Stephenie

**Consultation Paper: Reporting on the Long-Term Fiscal Sustainability of Public Finances**

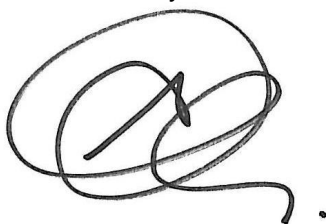
Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper *Reporting on the Long-Term Fiscal Sustainability of Public Finances*.

CPA Australia, the Institute of Chartered Accountants in Australia (the Institute), and the National Institute of Accountants (the Joint Accounting Bodies) represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

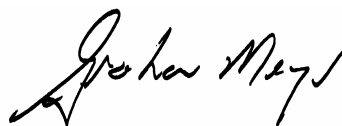
The Joint Accounting Bodies consider that a discussion of long-term fiscal sustainability issues and indicators as part of narrative reporting is necessary to meet the accountability and decision-making objectives of financial reporting. The Appendix to this letter contains our response to the Preliminary Views.

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au), Kerry Hicks, the Institute via email at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic, the National Institute of Accountants via email at [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au).

Yours sincerely



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**1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASBs Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” issued in September 2008 (Section Two).**

The Joint Accounting Bodies consider that the presentation of information on long-term fiscal sustainability is necessary to meet the objective of financial reporting.<sup>1</sup> This is consistent with our earlier submission to the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” when we opined that the scope of financial reporting proposed by the IPSASB was apt in that it appropriately acknowledged the importance to the public sector of reporting non-financial information. We acknowledge that the scope of financial reporting will need to evolve in response to users’ information needs, consistent with the objectives of financial reporting and auditing. While we believe that the presented information would benefit from some form of assurance, we do not see this as a job for a financial reporting standard setter such as the IPSASB. Rather, we believe resolution of this issue sits best with governments.

**2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:**

- **[Model 1] Additional statements providing details of projections; or**
- **[Model 2] Summarized projections in narrative reporting (Section Three).**

The Joint Accounting Bodies believe that to assist in satisfying the objectives of reporting the IPSASB Guidance should provide the option to choose one of the two models above to present long-term financial sustainability information in the financial reports. The Consultation Paper examines a third model “Cross-references in GPFs to other reports addressing long-term fiscal sustainability”. We agree with the IPSASB that use of the third model would not result in financial reports that are complete as the accountability and would not meet the comparability requirements that apply to financial reports.

**3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).**

The Joint Accounting Bodies believe that the reporting boundary should be what is relevant to assessing long-term fiscal sustainability. In some jurisdictions, that reporting boundary would be consistent with a reporting boundary based on the control concept governing General Purpose Financial Statements (GPFS). In other jurisdictions, the reporting boundary relevant to assessing fiscal sustainability will be different. For example, we believe it is the Australian Government policies and actions to tax and allocate resources that are most relevant to Australia’s long-term fiscal sustainability and these are managed by the General Government Sector (GGS). Accordingly, we are of the view that a reporting boundary based on the GGS will sometimes be appropriate for assessing long-term fiscal sustainability and adjustment to a reporting boundary based on the control concept is not appropriate and should not be required. In other situations, when the boundary used to report the underlying fiscal sustainability information does not appropriately capture the policies and actions of government, we agree with the IPSASB that the reporting boundary should be adjusted to provide consistency with a reporting boundary based on the control concept governing GFS.

Our response to Question 7 below articulates our support of an upper limit of five years of the reporting date for the reporting of long-term fiscal sustainability information with the possibility of more frequent reporting depending on facts and circumstances. We consider it appropriate that whenever the long-term fiscal sustainability information is reported it be included in the GPFR of the reporting Government

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<sup>1</sup> The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of General Purpose Financial Reports [GPFRs] for the purposes of accountability and making resource allocation, political and social decisions])

While we believe that the requirements should apply to each level of government (e.g., the national, state, and local governments), for reasons of understandability and cost: benefit we do not consider it appropriate that the requirement to report long-term fiscal sustainability information be pushed down to individual entities. Further, we consider that the time frame for “long term” might not be the same for each level of government.

4. **IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).**

The Joint Accounting Bodies support basing the selection of indicators of long-term fiscal sustainability on the extent to which they meet the qualitative characteristics of financial reporting. We also support providing comparative information and the reasons for ceasing to report indicators, if this occurs.

5. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:**
  - Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
  - The basis on which projections of inflows from taxation and other material revenue sources have been made;
  - Any other key assumptions underpinning long-term fiscal sustainability projections; and
  - Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).

The Joint Accounting Bodies support the recommendations of the IPSASB.

6. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:**
  - Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;
  - Discount rates, together with the reason for their selection;
  - Results of key sensitivity analyses; and
  - Steps taken to ensure that projections are reliable (Section Seven).

The Joint Accounting Bodies agree with the IPSASB recommendations for disclosures. We strongly suggest that the final bullet point “Steps taken to ensure that projections are reliable” make it clear that the requirement is from a management point of view.

7. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).**

The Joint Accounting Bodies agree with the IPSASB recommendation that the date of preparation or update be disclosed. While we support an upper limit of five years of the reporting date, we consider that facts and circumstances may require more frequent information on long-term fiscal sustainability to satisfy each of the qualitative characteristics of financial information, including relevance, materiality, and timeliness.