



May 11, 2010

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280-30

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2

Dear Technical Director:

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

Thank you for the opportunity to comment on the Reporting on the consultation paper on Long-Term Sustainability of Public Finances consultation paper. The views expressed in this letter reflect the views of the government of the Province of British Columbia.

The Province of BC acknowledges that the proposed guidance on the reporting of the long-term sustainability of public finances represents effective guidance for the preparation of these reports; however, the province recommends that the guidance not be included within the IPSAS library of GAAP for the preparation of general purpose financial statements (GPFS). Including this guidance as part of IPSAS GAAP would indicate to the audit community that fiscal sustainability reporting is a GAAP requirement, whether or not the guidance itself states that preparing the reports is voluntary. As a consequence, the audit community would perceive that the fiscal sustainability reports must be prepared even when the guidance itself states that their preparation is voluntary.

The consultation paper states in paragraph 2.4.6:

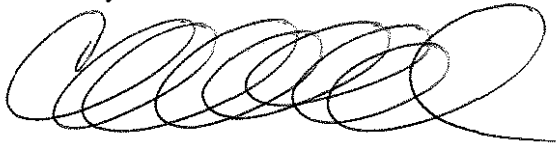
The IPSASB recognized that the long-term financial effects of government policies need to be made transparent to meet both the decision-making and accountability objectives of financial reporting. Therefore, in order to satisfy user-needs and meet the objectives of financial reporting, information presented in the GPFSs needs to be enhanced by presenting other information about the long-term fiscal sustainability of those programs, including their financing.

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The Province of British Columbia disagrees with the position of the IPSASB. The Province of BC believes that general purpose financial statements are historical in nature and should limit their reporting to historical events. We agree that GPFS include information related to future obligations; however, the future orientated information in GPFS is restricted to contractual obligations that are existent at the financial statement date. Information about the fiscal sustainability of governments must be reported in reports that are separate from the GPFS. We agree, however, that the management discussion and analysis section of GPFS could be used to direct the reader to the reporting of fiscal sustainability that is external to the GPFS. The Province of BC is also concerned about prospective information being included in GPFS, which could lead to an audit qualification by an auditor on the prospective information. Prospective information should be included with an entity's budget documents; it should not be included with GPFS.

Responses to specific questions posed in the discussion paper are attached. Should you have any comments or questions, please contact me at 250-387-6692 or by e-mail: [Cheryl.Wenzecki-Yolland@gov.bc.ca](mailto:Cheryl.Wenzecki-Yolland@gov.bc.ca), or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250-356-9272 or by e-mail: [Carl.Fischer@gov.bc.ca](mailto:Carl.Fischer@gov.bc.ca).

Sincerely,



Cheryl Wenzeki-Yolland, CMA, FCMA  
Comptroller General  
Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister  
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board  
Ministry of Finance

Carl Fischer, Executive Director  
Financial Reporting and Advisory Services  
Office of the Comptroller General

## Question 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 IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).**

The Province of BC believes that GPFS should be restricted to the reporting of historical information. In the province's response to the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," the province stated:

We believe that the primary objective of financial statements is accountability; we do not agree that financial statements are used to make resource allocation, political or social decisions. Resource allocations are made in the annual budget process when next year's resource allocations are determined well in advance of the end of the previous reporting period. Budget preparation is based on a great deal of data. Much of it is forward looking in relation to expected revenue or other resources and the perceived needs of service recipients, estimates of future economic performance of the economy within, and economies outside the jurisdiction preparing the budget. Some data used will include historical performance information derived from accounting and other service delivery records. We do not support equating the accountability objective with any other objective.

Financial statements may contribute to social or political decisions only in the broadest context of voting decisions of the major users – the public. These decisions are made once every several years, depending on the constitutional requirements of the jurisdiction and again, financial statements are providing information in relation to accountability. Social and political decisions are made more in relation to future expectations tempered by the accountability performance of the individuals making the promises. We feel that accountability, stewardship and transparency are more relevant objectives of financial statements.

## Question 2

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

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting (Section Three).**

The Province of BC believes that IPSAS guidance for the preparation of GPFS should not include any guidance related to the preparation of the reporting on the

long-term sustainability of public finances. Including this guidance as part of IPSAS GAAP would suggest to the audit community that fiscal sustainability reporting is a GAAP requirement, whether or not the guidance itself states that preparing the reports is voluntary. Our experience has been that the audit community would perceive that the fiscal sustainability reports must be prepared even when the guidance itself states that their preparation is voluntary. We recommend that any IPSAS guidance on the reporting on the long-term sustainability of public finances be included in a separate library, which is distinct and different from the GAAP library related to the preparation of GPFSs.

The Province of BC agrees, provided the guidance is not included in the IPSAS library of GAAP for the preparation of GPFS, that guidance on the long-term sustainability of public finances should be presented through:

- additional statements providing details of projections; or
- summarized projections in narrative reporting (Section Three).

### Question 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 Province of BC disagrees with preliminary view 3. The consultation paper in section 4.2.4 states that “many governments that report publicly on long-term fiscal sustainability do not use the same boundary for these reports as for their consolidated GPFSs. Instead they adopt a boundary determined by statistical bases of accounting or one based on the budget sector.” These governments have determined that the GPFS reporting boundary is insufficient or inappropriate for the reporting on the long-term sustainability of public finances. It is likely that these governments will continue issuing reports on long-term sustainability of public finances on a basis consistent with earlier reports. The IPSASB guidance should be targeted at these reports. The existing reports on the long-term sustainability of public finance reports that are prepared on a basis inconsistent with the IPSASB consultation paper on the conceptual framework emphasizes the requirement to have guidance on the reporting on the long-term sustainability of public finances sustainability in a library separate from the library of GAAP for the preparation of GPFS.

### Question 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 Province of BC agrees that fiscal sustainability indicators should be based on their relevance to the entity; however, as noted in the response to question 3, the entity boundaries that are being used for the preparation of the fiscal sustainability reports should not be limited to the reporting entity concept included in IPSASB GAAP.

The Province of BC agrees that IPSASB guidance should recommend that long-term fiscal sustainability indicators should be selected based on the extent to which the indicators meet the qualitative characteristics of financial reporting and their ability to describe the scale of the fiscal challenge facing the entity. The province is in agreement that if comparative information is available, it should be included in the fiscal sustainability reports. We also agree that the reasons an indicator is no longer provided should also be disclosed.

#### **Question 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 Province of BC agrees that long-term fiscal sustainability reports should 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.

#### **Question 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 Province of BC agrees with this preliminary view; however, we note that it is unlikely that long-term fiscal sustainability projections are reliable as projecting the future has proven to be very unreliable. The guidance on long-term fiscal sustainability reporting should require the preparer to make statements about the unreliability of future projections contained in the report and that many other outcomes could possibly occur compared to the ones included in the report.

#### **Question 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 Province of BC disagrees with this preliminary view. The entity preparing the long-term fiscal sustainability reporting is best suited to determine the frequency of reporting on the long-term sustainability of public finances.