

Association of Accounting Technicians response to International Public Sector Accounting Standards Board Exposure Draft 63 - Social Benefits

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to comment on Exposure Draft 63 - Social Benefits, published on 31 October 2017.
- 1.2. AAT is the UK's leading qualification and membership body for accounting staff. AAT is the UK's leading qualification and professional body for technical accountants and bookkeepers, and has over 140,000 members in more than 100 countries.
- 1.3. AAT provides comment on the development of accounting standards where these are relevant to accounting technicians and their clients and employers. The comments therefore are based on the potential impact that the proposed changes would have on AAT members working in the public sector and, especially, local and central government bodies in the UK that are involved in delivering social benefits.

2. Executive summary

- 2.1. **AAT supports IPSASB's work to improve information in financial statements about social benefits.** More consistent and appropriate reporting of transactions and obligations related to social benefits should enhance the quality and transparency of public sector financial reporting.
- 2.2. **AAT believes that IPSASB should establish stronger principles for reporting information about social benefits.** Clear principles, based on the work already completed for the Social Benefits project, should help entities to achieve more consistent and appropriate reporting.
- 2.3. **It should remain for entities and their auditors to judge how best to meet those principles.** This is because the nature of social benefits vary so much that it does not seem practicable to define a standard set of reporting requirements globally.

3. AAT comments

- 3.1. The following paragraphs outline AAT's comments. The questions have been abbreviated.
Comment 1: Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services? If not, what changes to the scope would you make?
- 3.2. AAT agrees with the scope and exclusion of universally accessible services. AAT believes it is a logical fit with benefits arrangements in the UK. However, it is important to note that benefits may be delivered either through:
 - the **provision of individual** benefits, such as the payment of child benefit;
 - the **provision of a standard allowance plus additional elements.**
- 3.3. Under the new Universal Credit arrangements, the UK is shifting towards the provision of a standard allowance plus additional elements. Universal Credit replaces existing benefits including:
 - Child Tax Credit
 - Housing Benefit
 - Income Support
 - income-based Jobseeker's Allowance
 - income-related Employment and Support Allowance
 - Working Tax Credit

Comment 2: Do you agree with the definitions of social benefits, social risks and universally accessible services? If not, what changes to the definitions would you make?

- 3.4. AAT considers that low income level is an important additional example characteristic of individuals and/or households for inclusion. The UK benefits system increasingly recognises that an employed person on a low income may require support rather than only those who are unemployed.
- 3.5. This is a key concern in the UK, where latest statistics show that whilst unemployment is at a relatively healthy low of 4.3%, underemployment is almost 10%¹. Underemployment is defined as individuals wanting to work longer hours than currently available to them, and being available to do so within two weeks. Underemployment has been found to adversely affect the welfare of individuals and/or households.
- 3.6. AAT recommends clarifying paragraph AG8 so that, “ Social risks relate to the characteristics of individuals and/or households – for example, age, health, poverty ~~and~~ employment status **and low income.**”

Comment 3: Do you agree that the insurance approach should be applied as described? If not, how do you think it should be applied?

- 3.7. AAT considers that the insurance approach is not relevant to the UK benefits system. The UK benefits system does not have a distinct revenue stream associated with its expenses. National Insurance contributions are often referred to as a tax and only indirectly linked to the provision of social benefits. Benefits levels are determined by Parliament and are not decided on a ‘commercial’ basis.
- 3.8. At a technical level, it might do little harm for the insurance approach to be available for use by public sector bodies in countries that provide social benefits with those characteristics. Presumably, public sector bodies in the UK would not be compelled to apply this. However, AAT is concerned that the approach may have the appearance of suggesting, in some way, that social benefits should be organised in a way that requires their “financial performance” to be measured and managed in a similar way to a for-profit insurance fund. This might be considered politically or culturally inappropriate or insensitive to the needs of vulnerable individuals and households.

Comment 4: Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive? If not, what past event should give rise to a liability for a social benefit?

- 3.9. In theory, the obligating event approach appears logical where there are distinct types of benefits being provided. However, it is difficult to see how it can be applied to a system based on the provision of a standard allowance plus additional elements, as exists now in the UK under the Universal Credit arrangements. Universal Credit is intended to deliver a more flexible and holistic mechanism for delivering social benefits and if successful in the UK it may well be replicated in other countries.
- 3.10. For Universal Credit, the past event that gives rise to a liability is low income, with the definition of ‘low’ varying depending on circumstances. AAT considers that the obligating event approach could be simplified, to state only that entities should measure liability for all beneficiaries that qualify. Attempts to be more granular than this seem likely to become less relevant due to country-specific factors, especially if arrangements like Universal Credit (where there is no longer a single qualifying event) become more common.

Comment 5: What disclosure requirements should be included for the obligating event approach?

- 3.11. The proposed disclosure requirements appear logical, useful and sufficient.

¹ <http://uk.businessinsider.com/ons-underemployment-double-unemployment-rate-2017-9>

Comment 6: Do you think IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, why?

- 3.12. As explained above, AAT considers that IPSASB should establish stronger principles for reporting information about social benefits, but it should remain for entities and their auditors to judge how best to meet those principles. This approach should deliver more consistent and appropriate reporting than attempting to impose a standard methodology on an international basis.
- 3.13. Although a lot of useful work has been completed with the Project to date that will inform these principles, further work will be needed to establish these Principles and it is obviously important that they are consistent with Recommended Practice Guideline1, Reporting on the Long Term Sustainability of an Entity's Finances. It is possible that as part of this work, some refinements to the Guideline might be appropriate.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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