

29 March 2018

Mr Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY10017  
UNITED STATES OF AMERICA

(Submitted by: IFAC 'Submit comment' link)

Dear Ian

**IPSASB Exposure Draft ED 63 *Social Benefits***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the IPSASB Exposure Draft ED 63 *Social Benefits*. The views expressed in this submission represent those of all Australian members of ACAG.

The information needed to evaluate the nature and financial effect of a social benefit scheme, and the impact of social benefits on the finances of the government would be enhanced by the proposals in the exposure draft. In addition, ACAG believes that the proposals serve as an opportunity to improve the accountability, transparency and decision-making of social benefits more broadly.

However, our view is that more work is required. The current exposure draft is expected to be difficult to implement, with potentially questionable results.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely



Andrew Greaves  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**

*Copy to: Australian Accounting Standards Board*

## APPENDIX

### ACAG comments on IPSASB Exposure Draft ED 63 *Social Benefits*

Specific Matter for Comment 1
(a) Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?

Yes, the scope is supportable including the exclusion of universally accessible services in para. 5(d). However, the scope is inconsistent, as it excludes insurance contracts which are within the scope of other standards. This raises the question about the insurance approach, which is included in paragraphs 7 to 9. Permitting social benefit schemes which, are similarly managed, as an issuer of insurance contracts to apply the insurance approach appears unusual. ACAG suggests greater clarity and consistency in the eventual standard.

It is ACAG's view that the approach of excluding universally accessible services by way of defining universally accessible services is overly complex and confusing. The definition of social benefits already makes the definition of universally accessible services redundant as universally accessible services do not mitigate the effect of social risks and would therefore not be considered social benefits in the first instance. This approach also leaves open the issue as to whether or not universally accessible services which do address social risks would be included, this should be addressed in finalising the standard. ACAG suggest an approach that applies the social benefits definition to universally accessible services would be easier for preparers to understand and apply.

IPSASB may want to consider whether the payment purpose is more relevant than eligibility criteria when determining if universally accessible services are social benefits. Using eligibility criteria creates additional complexity where social benefit payments that are directed at social risks include some eligibility criteria that do address social risk and other eligibility criteria that do not address social risks, for example, the person must be a citizen of the country or to receive unemployment benefits, the person cannot be a full time student or hold a working visa.

## Specific Matter for Comment 2

Do you agree with the definitions of social benefits, social risks and universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the definitions would you make?

ACAG agrees with the intentions of the definitions, but notes that the definitions are drafted in a manner that will be subject to varying interpretations. They may be further improved / expanded to provide a more definitive / specific principle. For example, the definition 'social benefits' refers to benefits that 'address the needs of society as a whole'. The extent of 'society as a whole' will be subject to significant variations of interpretation. In addition, to contradict the definition, the benefits must not be universally accessible services.

While using principles in definitions is a reasonable practice, it will need some degree of specificity for this particular topic, which covers a broad range of benefits. In addition, as the proposals will apply to an international audience, this may result in further divergence in interpretation.

This divergence will be exacerbated by the referencing of Government Finance Statistics (GFS) terms, use of significantly amended GFS definitions and measurement and recognition that is different from GFS. A consequence of applying this ED would be government reporting social benefits and related assets, liabilities and revenue in financial statements which potentially have little correlation (other than like terminology) to what the same government would be reporting in statements prepared using GFS. Prior to the issuing of an Australian Accounting Standard (AAS) to harmonise GFS and AAS (AASB 1049), it was Australia's experience that users of government financial information found this particularly confusing and there was constant questioning and debate as to which representation was 'correct'. IPSASB may want to consider whether users would consider this a significant adoption issue.

The definition of 'social risks' refers to the characteristics of individuals and households, followed by examples. The definition appears vague and non-specific. The risk of events or circumstances adversely affecting welfare does not help with identifying what social risks are. Given the stated outcome in BC 22 of aligning the definition with GFS terms, ACAG suggests that IPSASB replace the definition with reference the GFS Manual<sup>1</sup> which provides extensive and detailed guidance. This approach has the additional benefit of having a consistent definition for the reporting of budget results and financial reporting.

The definition 'universally accessible services' does not focus on the capacity to provide services, instead focusing on eligibility criteria. ACAG are of the view that this definition is flawed because a lack of capacity (e.g. limited budgeted resources) to provide services may be interpreted as limiting eligibility for services. Examples may include healthcare and education. This definition is critical because it determines whether there is a social benefit or not. To the extent that the definition of 'universally accessible services' relies on the definition of 'social services' in GFS, ACAG suggests that IPSASB uses the relevant GFS reference with relevant guidance on how to apply for the purposes of this standard.

ED 63 should include both a definition and guidance of what constitutes a 'scheme'. Recognition and measurement (paras. 7-9) is based on the existence of a scheme yet there is no definition or guidance for determining whether or not a scheme exists. Further, while para. 9 does indicate that

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<sup>1</sup> See System of National Accounts 2008

there should be an intention that the scheme be fully funded from contributions, this requirement is ambiguous; what is the relevant source for the intention (legislation, department guidance, government policy, election promise, etc.)? Does fully funded mean able to make payments as, and when, due or that there are sufficient assets to cover the estimated liabilities? Is the scheme fully funded where government legislation states that they will meet all payments? What constitutes contributions? Is it only contributions from beneficiaries? What if the contributions are not paid by beneficiaries e.g. employers? What if contributions contain a significant element of redistribution? What happens when the intention is that the scheme be fully funded but it isn't (should this only be a consideration in the medium or long term)?

**Specific Matter for Comment 3**

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

ACAG does not have a specific detailed comment for this issue. IFRS 17 is not yet operative and the public sector impact remains unclear. Practical application of the pronouncements are required before a useful and reliable response is provided. ACAG however finds the basis for the analogy tenuous because social benefits are not underpinned by any form of insurance premiums or contractual arrangements with the recipients of social benefits. In considering possible approaches to addressing this issue, IPSASB may want to consider the nature of any contributions and in particular, whether or not contributions are a basis for accessing benefits or serve as a basis for determining the level of benefit available to the beneficiary. This discussion would need to distinguish between funding mechanisms intended to address social equity i.e. attribute the cost from government to a particular group of beneficiaries or those responsible for the cost from a social benefit scheme.

#### Specific Matter for 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 (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit? *This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*

ACAG agrees with the obligating event approach, which will best represent the nature of social benefits in Australia. The current practice provided in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* para. Aus26.1 points to the specific experience where it is stated 'A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period' is aligned with the obligating event approach. ACAG suggest that IPSASB include guidance clarifying whether eligibility criteria; confirms claim, alters entitlement or constitutes an obligating event.

The recognition of social benefits liability may be further complemented with a note on social benefits commitments according to existing policy. If deemed useful information, the disclosure may include quantitative information of the costs of social benefits over financial periods as estimates. In considering the issue of forward estimates and possible references to budget estimates<sup>2</sup> (generally prepared using GFS), it is important to consider the impact of where ED 63 departs from and is different to GFS (discussed in detail later).

It is ACAG's view that the absence of a contract and the broad range of mechanisms available to a government in establishing and delivering social benefits mean that the explicit requirement that 'satisfaction of eligibility criteria' is the only past event is overly prescriptive. ACAG suggests that while this is likely to be a frequent occurrence, the standard should also consider that other circumstances may indicate a different past event. ACAG consider that an approach consistent with that used for consideration of 'constructive obligations' as an 'obligating event' as provided for in AASB 137 (IAS 37) would be relevant.

ACAG notes the three IPSASB members' alternative view and supports some additional research about the economic substance of social benefits. The underpinnings relating to 'economic substance' are not particularly clear. ACAG further notes that the reference to recognition of a liability at an earlier point may lead to unreliable measurement, which may not achieve the qualitative characteristics of relevance and faithful representation in some circumstances.

However, ACAG agrees with the notion that social benefits will generally be short-term liabilities because a liability cannot extend beyond the point at which eligibility criteria are next required to be satisfied. This may result in entities knowing the social benefit amounts involved without the need to make material estimates of the liability. Consequently, most social benefit liabilities recognised will be recorded at nominal amounts without the need for discounting.

In accepting that social benefits will generally be short-term liabilities, ACAG acknowledges that typically social benefits represent a significant long-term commitment by governments and such

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<sup>2</sup> For example; Australian Commonwealth Budget Paper No. 1 2017-18 (Statement 6-Expenses and Net Capital Investment) <http://budget.gov.au/2017-18/content/bp1/download/bp1.pdf>

information is useful to users. ACAG would therefore encourage IPSASB to develop long-term financial sustainability reporting. In developing an approach to reporting long-term commitments ACAG offer the following for consideration:

- There should be a logical relationship between financial statement reporting and financial sustainability reporting. Universal agreement on liability recognition point seems unlikely, however from a practical consideration what will matter is that users understand the different recognition points and how the long-term reporting flows through to financial reporting.
- Disclosures on the long-term reporting should clearly differentiate between actuarial movements and changes in recognition criteria.
- The approach taken should be consistent when applied to both payment and revenue items.

#### Specific Matter for Comment 5

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
- (b) The disclosures of the amounts in the financial statements (paragraphs 32-33) are appropriate; and
- (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
  - i. It is appropriate to disclose the projected future cash flows; and
  - ii. Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

ACAG supports the disclosure requirements excluding para. 34 disclosures or item (c). ACAG believe the 'projected future cash flow' information would be of limited use for the public sector and as a consequence the costs are likely to outweigh the limited benefits. ACAG's view is that disclosing future cash flows relating to social benefit schemes is incongruent with the obligating event approach; it is effectively stating that future cash flows represent some form of liability or commitment over the future periods. While this may not be the intention, it is a foreseeable outcome. ACAG instead suggest that IPSASB develop long-term financial sustainability reporting.

### Specific Matter for Comment 6

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

#### Advantages

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

#### Disadvantages

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

ACAG is of the view that reporting on long-term fiscal sustainability should be separately considered as part of the integrated reporting project. ACAG do not believe that an overlay of additional information would add value to the financial reporting of social benefits. Users would likely find the information more complex and voluminous, and potentially less useful.