

Finance

Comptroller's Division

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Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario
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Dear Sir/Madam:

Re: Exposure Draft 46 – Reporting on the Long Term Sustainability of a Public Sector Entity's Finance

Thank you for the opportunity to comment on Exposure Draft 46 – Reporting on the Long Term Sustainability of a Public Sector Entity's Finance.

The Province will respond directly to the Specific Matters for Comment in the ED. We would however like to begin by expressing our overall general concerns about the issue.

Status:

The Province is pleased the final standards will be a Recommended Practice Guide (RPG) and will not carry the authority of an IPSAS. Nonetheless, it has been the Province's past experience that the Canadian legislative audit community views standards of recommended practice as mandatory rather than practices that are encouraged. Section 51 suggests that the reasonableness of the projections can be enhanced by an external auditor. The inclusion of section 51 will only provide support to external auditors who may view the adoption of the RPG as mandatory.

Changes in the Global Economy and Government Policies:

Governments have the ability to project revenues and expenses for several years into the future. The projections are based on reasonable assumptions about future government policies and the economic environment. As we have all been made aware, there are global events, outside the control of the government, which can change the economic landscape overnight. In addition, governments fall and are replaced, or on occasions adopt new priorities and make sweeping policy changes.

Projected revenues and expenses after such events are irrelevant because the environment which these assumptions were based is no longer in place. However since the projections were previously in the public domain, the government is exposed to criticism for failing to meet their objectives or changing them all together. In conjunction with general purpose financial statements, information on the sustainability of government programs over the next few years does provide useful information to the readers that are not provided by the general purpose financial statements alone. But as the time frame lengthens the reliability of the information quickly diminishes. If a government is to provide credible information on its long term sustainability, the projections should not be more than 3 years into the future, or two years beyond the government's budget. After more than 3 years the assumptions used for the projections are highly unreliable.

Specific Matter for Comment 1:

Do you agree that the characteristics of an entity that indicate whether users exist for information on long term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

The RPG is to apply to all public sector entities except Government Business Enterprises (GBE). The Province's opinion on this matter is that the RPG should only apply to governments unless a controlled entity determines there are users for the information.

Most public sector entities, other than GBEs, do not have the ability to raise revenues, determine service delivery levels, and incur debt. Government organizations have little discretion for changes in their mandate or service levels without the funding or authority of the government. In comparison, governments have significant revenue raising powers, can incur debt and have decision making powers over service delivery levels.

The information provided by the controlled entity should be consistent with the information reported by the government and the users should be informed of the information on long term sustainability reported by the government.

Specific Matter for Comment 2:

Do you agree with the "dimensions" of long term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?

The Province of Manitoba agrees the "dimensions" described in the exposure draft provide a viable framework for narrative reporting on the long term sustainability of a government's finances.

The dimensions of fiscal stability, service capacity and vulnerability are similar to the indicators recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The Province of Manitoba is currently using the financial indicators recommended by PSAB in its financial statement discussion and analysis report. Fiscal capacity and sustainability both measure the government's ability to meet its program commitments without increasing its borrowings or taxation levels. Flexibility or service capacity measures the degree a government can increase its financial resources to respond to rising commitments by increasing its revenue or by increasing its net debt (PSAB) or net financial worth (IPSASB). Vulnerability (i.e. PSAB and IPSASB) measures the extent to which the government is fiscally dependant on funding sources outside its control.

Specific Matter for Comment 3:

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

The approaches to the methodology presented in the exposure draft are all reasonable. The Province of Manitoba feels that the key disclosures are the economic assumptions used to prepare the projections. These assumptions should be fully disclosed to the users, reviewed every year, and updated as required. The users should also be informed that the economic assumptions are inherently uncertain and small changes in the variables can have a significant effect on the projections.

Conclusions:

The Province of Manitoba is pleased that the final RPG will not have the status of an IPSAS. However we wish the suggestion that "the reasonableness of the projections would be **enhanced** by an external auditor" should be removed. External auditors have the responsibility to ensure that the assumptions used by governments are reasonable and consistent. However they have no authority to provide an opinion on such matters.

The scope of the RPG should be limited to governments only. Public sector entities under the control of the government have no powers to incur debt, raise their revenues, or change their service delivery levels without the consent of the government. A public sector entity should not produce information on its long term sustainability unless it has identified users who would need the information.

The Province of Manitoba agrees that the methodologies used to prepare the projections should not be too prescriptive and should be left to the governments to determine. The emphasis should be on the disclosure of the key assumptions. The users should also be made aware that the assumptions are inherently uncertain and small changes in the variables can significantly affect the projections. The time horizon for projections should be brief as projections over long periods are completely unreliable. The time horizon should however be sufficiently long to identify any possible trends from the past historical results.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba