

February 29, 2012

Ms. Stephenie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Ms. Fox:

Re: IPSASB Exposure Draft (ED)-Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances

I offer the following comments to IPSASB on the Exposure Draft (ED)-*Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* on behalf of the Provincial Government of Newfoundland and Labrador.

General Comments

We do not support a mandatory standard on long-term sustainability reporting of a public sector entity's finances. As such, it is appreciated that the ED proposal has been issued as a Recommended Practice Guideline (RPG). However, there is concern that this may only be a tentative view of IPSASB, at this time, given the importance that it places on reporting in this area. This concern is raised in relation to paragraph BC 6 where it concludes that it would be premature to issue an authoritative pronouncement due to the fact that reporting on long-term sustainability is an area where practice is developing. Concern also stems from the fact that if the scope of financial reporting proposed in IPSASB's Conceptual Framework Project is not limited to financial statements, the proposed guidance for reporting on long-term sustainability may be re-examined later from the perspective of an authoritative standard. If this is the intention, the proposals of this ED are not supported.

In relation, the IPSASB should complete its Conceptual Framework Project before continuing to develop guidance in the area of long-term sustainability reporting. As we previously commented, in relation to that project, it is our position that the scope of the conceptual framework should be limited to historical information and not extended to include prospective and non-financial information.

In terms of positioning of this guidance, there is concern that if the RPG is associated with IPSAS's library of GAAP for general purpose financial reporting, it would give it a perceived authority by the public and the audit community. This perception is based on experience with Statements of Recommended Practice (SORPs) issued by the Public Sector Accounting Board (PSAB), in particular SORP-1 *Financial Statement Discussion and Analysis*. There would be more pressure to prepare this reporting especially given that it is positioned as an accountability document. At this point, the whole aspect of a voluntary guideline becomes irrelevant and the recommended guidelines dictate reporting in an area that a government should have more control (perceived policy document rather than an accounting document). As such, it should remain outside the IPSASB library of GAAP for general purpose financial reporting.

There is also concern that long-term sustainability reporting would create confusion for financial statement users in understanding and interpreting such reporting especially in relation to the annual financial statements and the budget documents. In fact, including prospective information based on assumptions about policy changes that have not been approved by the legislature in general purpose financial reporting is not seen as appropriate for an accounting document; rather it is seen more as a policy document. In particular, reporting transactions that do not meet the definition of an asset or liability would possibly provide information that would be perceived as confusing when associated with financial statements or referenced as a base in preparing sustainability reports. Further, it is questioned whether such reporting is required or even valuable from a government perspective. In Canada, governments currently have guidance on the reporting of financial condition (Statement of Recommended Practice 4 *Indicators of Financial Condition*); however, it is to be noted that the requirements are based on the government's ability to meet its existing financial obligations.

In addition, there are practical concerns regarding long-term sustainability reporting. Given the degree of subjectivity regarding policy decisions to be approved throughout government it would be challenging to project government policy beyond a government's expected term of office. Where long-term projections are made, the validity of any underpinning assumptions are to be questioned. From the perspective of a provincial government, there is also a certain amount of vulnerability in regard to its relationship and funding with the federal government which can affect the usefulness of sustainability reporting. Similarly, there is concern that this type of reporting would not be appropriate or meaningful for the majority of government organizations given that the fiscal sustainability of such organizations would be linked to the sustainability of the government. The practicality of making assumptions regarding sunset provisions as indicated in paragraph 41 (to extent or renew a program) may also not be practical; the legislature would have to approve any changes to legislation and any extension to clauses that would indicate a sunset provision.

Further, there is concern regarding the definitions in the proposal for indicators related to net debt that do not represent the concept of net debt as understood within Canadian Public Sector Accounting Standards. These indicators as described would create confusion and be misunderstood by users. As well, per paragraphs 12 and BC 13, in relation to "consolidated national" and "whole-of-government level" it is not clear if the proposals reflect an understanding of the constitutional structure in Canada; each government (federal, provincial, municipal) is a separate financial reporting entity that would be excluded from the financial reporting of any other government. It is felt that these items require clarification from a Canadian perspective.

While the above comments detail our main concerns regarding this proposal, we provide the following in relation to the specific matters for comment requested by the IPSASB.

Specific Matter for Comment 1

As reporting on long-term sustainability is not deemed mandatory; it is considered appropriate that each entity should have the ability to determine if such reporting is appropriate given its circumstances and user needs. While the characteristics included are valid in assessing if there are users for such reporting; it should only be a guideline. If other considerations are applicable, it should be a part of determining whether to report on long-term fiscal sustainability. However, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

Specific Matter for Comment 2

Yes, it is agreed that the "dimensions" of long-term sustainability that have been proposed provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections. However, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

Specific Matter for Comment 3

Yes, the guidelines provided in this ED on disclosures of principles and methodologies appear adequate. However, paragraph 51 suggests that there are a variety of approaches that enhance reasonableness and realism of projections and specifically notes the formal assurance by an external auditor. This is not supported given the subjectivity of this reporting. In addition, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,

RONALD A. WILLIAMS, CA
Comptroller General of Finance

cc: Terry Paddon, Deputy Minister of Finance