

SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT

Consultation Paper issued for comment by the International Public Sector Accounting Standards Board of the International Federation of Accountants

Comments from ACCA
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ACCA welcomes the opportunity to comment on the Consultation Paper *Social Benefits: Issues in Recognition and Management*, issued for comment by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

General Comments

ACCA notes that IPSASB admits to be working within the constraints of an “implied” conceptual framework. ACCA also notes IPSASB’s observation that a limitation to primary financial statements is that they focus primarily on past events. Events occurring in future time are a major element in the challenges this document addresses; and indeed represent an increasing amount of standard setters’ time and effort generally. We suggest that in the light of these two factors that it may be wiser to delay proceeding on this issue until further research has been conducted in specific circumstances and jurisdictions. We wonder whether debate ought really to focus on “what is a government liability”, rather than trying to fit social benefits within a framework of IAS 37.

The scope of the document is at times unclear. For example, paragraph 7 refers to a government’s social programs; paragraph 9 refers to governmental responsibility; paragraph 16 refers to provision “by an entity”. Presumably, therefore the Consultation Paper is extremely wide ranging and could include national governments, local authorities, health trusts, nationalised rail and other infrastructure providers. And the range of services and goods will be equally diverse: from the provision of street lighting through to brain surgery.

Paragraph 23 explicitly excludes non-exchange transactions, for example a private sector entity providing home care services to aged persons under a contractual agreement with a government agency. The specific example raises the problem of “bundling” of service provision, for example in the case of the home for the elderly, services may include specialist medical and clinical support provided by staff and equipment sourced from a health trust.

The rest of the document covers six key issues and the arguments for and against each. These are:-

Do present obligations to beneficiaries for collective goods and services occur?

ACCA agrees with the position set down in paragraph 24, i.e that “governments” (all public sector entities) do not make sufficiently specific pronouncements to give

rise to constructive obligations. For example it is not felt that election manifestos provide evidence of present obligations. It may be the case, as noted, that the extent of any obligation depends on the specificity of the past policy announcements.

The arguments for and against obligations to beneficiaries for individual goods and services are similar as for collective goods and services in the Consultation Paper. It is noted in paragraph 29, moreover, that the line between cash transfers and individual goods and services is “sometimes blurred”

ACCA agrees with the statement in paragraph 33 that an argument put for those who take the view that an obligating event does not occur before all eligibility criteria have been satisfied is that governments can and always will modify existing legislation. This leads towards a “due and payable” approach

ACCA is pleased to note at paragraph 40 an acknowledgement of the “practical difficulties” in identifying when an obligating event occurs. This paragraph also acknowledges the importance of changes in demography which may affect changes in expectation “...younger age groups have lower expectations of a viable social security pension on retirement than older age groups and that those expectations are diminishing”

ACCA agrees with the statement in paragraph 41 that even within the same jurisdiction there may not be a consistent approach to identifying a “key participatory event” in different programs

ACCA notes in paragraph 42 a government’s right to tax. The Consultation Paper says standard setters currently take the view that a government’s right to tax does not give rise to an intangible asset that would counter-balance the amount reported as a liability for these events. This is true, but it could be argued that this is a significant counter argument to any form of recognition of long term social benefit provision.

ACCA agrees with paragraph 44 of the Consultation Paper that such obligations, whether contributory or non contributory, may be many years in the future. This implies major conceptual and practical problems of quantification, of discounting, and of inter generational equity.

ACCA agrees with paragraph 47 and the arguments of those who do not consider that an obligating event occurs at an earlier point for cash transfers financed by contributions as opposed for those of non-contributory programs. It is noted again that governments have the ability to amend or repeal legislation. Also that caveats and qualifications usually hedge the obligation such as to make its validity doubtful. This is reinforced in paragraph 49 by noting that governments can and will take actions such as raising participants' contributions, reducing benefit levels or deferring the age at which benefits are received

In terms of the executory contract accounting model suggested, ACCA does not believe that further exploration would be productive, given its potential difficulties in application in practice (for example, how would the ongoing duty of individuals or households be recognised to offset the commitments recognised as government commitments?).

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