

IPSASB Consultation Paper 'Reporting on the Long-Term Sustainability of Public Finances'

response to consultation

30 April 2010

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We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

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Dear Stephenie Fox

IPSASB Consultation Paper

Reporting on the Long-Term Sustainability of Public Finances

CIPFA is pleased to present its comments on the proposals in this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

We strongly support IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs. In our response to the September 2008 IPSASB Conceptual Framework consultation paper, we also agreed that it is important to broaden the Framework to cover matters which go beyond a focus on financial statements. We agreed that fiscal sustainability and other public sector issues such as reporting on social benefits are important issues which should be properly explored.

CIPFA has already provided comments on IPSASB's March 2008 consultation on a proposed project brief on Long-Term Fiscal Sustainability, noting that

- developing this kind of information would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements;
- appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens;
- audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.

We also suggested that the Board has set itself a very ambitious task. While we understand that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed. The combination of estimation uncertainty with political and policy assumptions raises particular questions about how and whether preparers of financial reports can avoid bias, and avoid or manage the risks of an increase in the politicisation of financial reporting generally.

General comments

Overall we consider that the Consultation Paper has mapped out a practical basis on which to develop guidance.

However we are unsure whether the Consultation Paper is framed with mandatory guidance in mind, or whether this is still a matter to be determined. For example Preliminary View 1 suggests that fiscal sustainability information is 'necessary' to achieve

the objectives of financial reporting, which might be taken to imply that IPSASB should develop a mandatory standard. This somewhat contrasts with the use of 'recommend' and 'encourage' in other Sections of the paper, which might be taken to reflect the possibility of non-mandatory guidance, or guidance which incorporated a very substantial degree of flexibility. In line with our comments in 2008 we are not convinced that it is currently practical or appropriate to develop mandatory guidance.

Specific comments on the Preliminary Views

Preliminary View 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008

We agree that an awareness of fiscal sustainability issues is important context which is needed to gain an understanding of the financial statements and other financial reporting. Its relevance is clear, particularly at whole of government level and at other levels of government which have the capacity to levy taxes and to set tax rates with a view to funding future expenditures.

However, a view that specific information is 'necessary' might point to a requirement that mandatory standards should be developed. We would stress that including this information in financial reporting is clearly beneficial and extremely desirable, and we would not wish to discourage reporting of this type. We can also see that this information might be particularly beneficial in circumstances such as the current global financial crisis. However, we still have reservations over the suggestion that such information is necessary.

Preliminary View 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GFPRs be presented either through:

- Additional statements providing details of projections; or*
- Summarized projections in narrative reporting*

In the light of our comments on Preliminary View 1, we would observe that some jurisdictions are likely to follow a different approach continue to prepare separate long-term fiscal sustainability reports in line with Model Three. Cross-references and summarised information relating to those reports might often be helpful to readers of GFPRs.

Having said this, we agree that Reporting Models One and Two as outlined in Preliminary View 2 are sensible starting points for presenting fiscal sustainability information in General Purpose Financial Reporting.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government

We agree that IPSASB guidance should be based on the concept of the reporting entity.

We agree that fiscal sustainability issues can arise at all levels, although we are not sure that it will always add value to report in situations where one tier of government is substantially financed by a higher tier. We agree that the principal focus should be on consolidated reports, rather than for individual entities which may, for example, not be in a position to fund the majority of their expenditure through the raising of taxes or other income generating activities which they directly control.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on

- (a) their relevance to the entity,*
- (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and*
- (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed*

We agree with these criteria for the selection of indicators by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance. We have considered whether in the interests of comparability, it might be preferable for IPSASB to encourage a more standardised format or preferred model for reporting. However, while this might be useful to international bodies and finance providers, we do not consider that comparability between reporting entities or jurisdictions should be a primary objective of this reporting.

We also accept the need to select indicators based on the extent to which they meet the qualitative characteristics. However, we consider there are unresolved issues in connection with verifiability of forward looking information which will need to be examined. Furthermore, while determining an assurance model for long-term fiscal sustainability reports falls outside the scope of the IPSASB consultation, inevitably such issues do arise. We suggest that due to the considerable degree of uncertainty surrounding economic and demographic data and the degree of judgement required it would be helpful if the IPSASB guidance were clear that information on long-term fiscal sustainability does not fall within the 'presents fairly' basis upon which the financial statements are prepared and audited.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework*

We agree with the disclosure of the above contextual information by public sector entities which are reporting on long-term fiscal sustainability. This is a difficult area, where it can be problematic even for the most well-intentioned of preparers to explain all of the economic and other assumptions embedded in reporting. Potentially quite complex disclosures will be necessary so that information on long-term fiscal sustainability is understandable to users, and the risk that this will confuse rather than enlighten will need to be managed.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- Discount rates, together with the reason for their selection;*
- Results of key sensitivity analyses; and*
- Steps taken to ensure that projections are reliable*

We agree that it is helpful to provide the above information on time horizons and related modelling parameters.

We would also observe that, while very long time horizons (e.g 75-100 years) may be chosen to avoid missing important future consequences, this is rather a specialised form of reporting and will generally be less robust than projections made over shorter timescales. In the light of probable changes to technology, society and governments over such long timescales, the projections might not be considered to be testable predictions, but more as a very specialised accountability indicator. While we accept that such long term projections are considered useful in some jurisdictions, in moving to an exposure draft it would be helpful if there were more clarity and explanation on this to help readers understand the nature, purpose and limitations of this reporting.

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that

- (a) the underlying projections should have been prepared or updated within five years of the reporting date, and*
- (b) the date of preparation or update should be disclosed*

We agree with the disclosure of information on currency and timeliness of reporting. The Board may also wish to consider whether to promote (but not compel) credibility checking on a more frequent basis than a five yearly cycle.

I hope these comments are a helpful contribution to the development an exposure draft of further guidance. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org.uk, t: +44(0)20 7543 5794).

Yours sincerely

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