



Technical Director  
International Public Sector Accounting Standards Board (IPSASB)

By e-mail

TECH-CDR-913

30 April 2010

## **REPORTING ON THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES - CONSULTATION**

1. ACCA has been actively involved in public sector financial management issues over a number of years and we warmly welcome the opportunity to respond to the above consultation. ACCA supports IPSASB's work in the development of high quality standards for the public sector. In our view this consultation is extremely pertinent given the size of government debt around the world as a result of the global economic crisis. Many countries are facing fiscal challenges that could threaten their fiscal futures.
2. ACCA is a global body for professional accountants, supporting 140,000 members and 404,000 students throughout their careers, and providing services through a network of 83 offices and centres. A significant number of our members work within government and audit institutions around the world and our response to this consultation is one from an international perspective.

## GENERAL COMMENTS

3. Generally we consider the consultation paper provides a useful basis on which to develop future guidance. We have a few reservations, particularly in respect to the practicalities of implementation.
4. Reporting on long-term financial sustainability will be an aspirational goal for many countries, particularly for non-OECD countries. These countries are still grappling with cash accounting let alone implementing the proposals set out in this consultation. The OECD reported that 16 out of 58 OECD countries had adopted accruals accounting and 34 were on a cash basis of accounting. The majority of eastern and South African countries are near to adopting and/or complying with the cash accounting standard. This is, of course, not a reason for countries not to adopt long-term financial sustainability reporting, but perhaps it gives an indication of how this will be prioritised.
5. We would question whether there is the political will to introduce long-term financial reporting by some governments. This is not something that the IPSASB can address, but should be aware of, particularly, when setting frameworks and managing expectations about implementation. The consultation also fails to take account of the skills required to do it and the cost of implementation. In the developing world there is a skills shortage of finance professionals and a key priority is for national governments, institutions and the donor community is to build financial capacity. In our response to the recent consultation on the 'cash basis of accounting standard' we reported that "the costs and resources required implementing the standard, the availability of qualified accountants in the public sector and cultural resistance to change are key issues for developing countries". In our view these issues will equally apply to the implementation of long-term financial sustainability reporting and the proposal does little to address implementation issues.
6. You state in page 3 that fiscal projections have historically been carried out by professional groups such as economists, statisticians and budget and policy specialists with no mention of the accounting profession. Given the complexity of the issues involved which not only cover financial implications but also social and political ones, accountants will have to develop a wider set of skills which include a detailed understanding of economic models and statistical methodologies. We would also question why the IPSASB now sees this area as falling within its domain, particularly, as traditional standard setting has been for reporting on retrospective information.

7. However, we recognise that a number of OECD countries are trying to become better prepared for their fiscal futures and have experimented with preparing long-term fiscal projections with various success. The OECD has already undertaken a substantial amount of work in this area which highlights key areas of progress.

## SPECIFIC COMMENTS ON PRELIMINARY VIEWS

### *Preliminary View 1*

***The presentation of information on long-term financial sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's consultation paper, "conceptual framework for general purpose financial reporting by public sector entities" issued in September 2008***

8. In principle we support the proposal that information on the long-term financial sustainability of national governments should be reported to increase accountability, transparency and support effective decision-making. There is little doubt that long-term fiscal reporting can help countries be better prepared for their fiscal futures. We are also very supportive of the development of a public sector conceptual framework in which this type of reporting would sit. It provides a practical focus for reporting on long-term financial sustainability.
9. It is hard to disagree with the premise that information about the long-term sustainability of public finances is of great interest to the public of each nation. Also, supra-national organisations will have a particular interest such as the European Union, OECD, World Bank and International Monetary Fund.
10. In addition, in the absence of a global definition on long-term financial sustainability we agree with your preferred definition *'the ability of government to meet its service delivery and financial commitments both now and in the future'*. As well as recognising two dimensions of long-term financial sustainability it will be easily understood by the public.

***Preliminary View 2***

***IPSASB guidance should recommend that long-term financial sustainability information in GPFRs be presented either through:***

- ***additional statements providing details of projections***
- ***summarised projections in the narrative reporting.***

11. We would support the IPSASB's view that because the form and content of long-term fiscal sustainability is still evolving the IPSASB shouldn't prescribe the approach to be taken on reporting at this point in time.
12. It is not clear within your consultation that you are proposing a separate report for reporting on long-term financial sustainability. It appears that you are suggesting that it should be part of the general purpose financial reporting statement as described in Exhibit 2 (p15). In our view it should form part of a separate report which should be subject to some form of verification. The latter is discussed further in paragraph 20. Our reasoning behind this is partly based on the fact that the data in the fiscal sustainability report is much less reliable and verifiable than what is reported in the general purpose financial statements (GPFs) and general purpose financial reports (GPFRs).

***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.***

13. In principle we would agree that long-term fiscal sustainability reporting should be required at the sub-national levels to meet the objectives of accountability, transparency and decision-making.
14. To counter balance this we have some reservations. The consultation papers draws attention to the fact that countries have differences in reporting on boundaries e.g. only a minority of governments report long-term fiscal sustainability based on the control concept governing the GPFs. This means that if long-term fiscal sustainability reporting was prepared for the same reporting entity as for GPFRs in some countries local government would be ignored. The 'national accounts' definition might offer a better solution to reporting as it takes account of general government plus public corporations.

15. It is also questionable as to how far to drill down to sub-national level. It is critical to know when to draw the line. In the UK for example the financial reports do cover the whole of the public sector (including local government) therefore reporting at any lower level would serve no purpose. However, in a federal situation such as in the United States it might make sense for an autonomous state to produce a separate long-term fiscal sustainability report, whilst the federal government produces something different.

***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 recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed.***

16. We believe for the reasons clearly set out in the consultation document that the IPSASB is right not to recommend a universal uniform set of indicators at this stage. However, a small select number of indicators could be recommended to jurisdictions, such as debt to GDP. This would be useful for comparability purposes and would help to avoid governments 'cherry picking' what they report. We agree that countries should set out the reasons for selecting its indicator set as part of a qualitative statement.
17. We also agree that it would be good practice to report comparative information and to disclose reasons for de-selecting/ selecting indicators. However, countries should avoid where possible frequent changes to its indicator set.
18. One of the debates within the UK when discussing accounting policies for social security payments was whether to include a qualitative statement along the lines prepared for the USA statements of social insurance (SOSIs). HM Treasury Ministers did not agree because it argued that the Government was cherry picking items which to report. This is one example of the obvious dangers of providing flexibility to countries on which indicators to report against. It is difficult to see how to overcome this without additional guidance.

***Preliminary View 5***

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

- ***Any deviations from the principle that long-term sustainability projections are based on current policy;***
- ***The bases 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 reasons for ceasing to report indicators, if this occurs, are disclosed.***

19. We agree with the set of principles set out above for reporting on long-term fiscal sustainability. For example, we would consider it good practice for disclosures to assume that current policy continues for significant expenditures and that future events are incorporated in assumptions. We agree that all material programs and transactions must be reflected.
20. One area which has been omitted in the consultation is the question of audit. Is it really appropriate for auditors to comment on long-term financial sustainability? The consultation doesn't address this issue. Given the highly contingent nature of long-term fiscal forecasts, if they are subject to audit it could be construed as auditors commenting on 'political policy'. Also, the costs and consequences for implementation by governments have not at all been considered as part of this consultation. Perhaps this should be addressed in future consultations on this issue.

***Preliminary View 6***

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

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

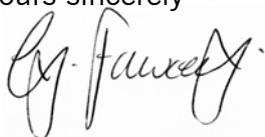
21. We agree that time horizons need to be presented and discussed. As you rightly point out a number of material programs such as social security, health and pensions, stretch over considerable periods of time into the future >25 years. Our caveats are that when presenting data over significant time periods it is more than likely that it may well serve to provide a distorted picture because of the uncertainty involved rather than a meaningful one to the user of the financial statements. It is also unlikely that they will match the actual outcome. Given these factors it is questionable how useful these statements really are to the user of financial statements.
22. You recognise that there are a variety of approaches to applying discount rates. In our view there is 'no one size fits all' and because of that we would agree with your proposal that governments should disclose the discount rate applied and the rationale for applying it.
23. We agree that sensitivity analysis is an important tool to demonstrate how sensitive a policy is to changes in economic and demographic changes. This is already used extensively in policy decision making in the UK and is recommended accounting practice.

***Preliminary View 7***

***IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or update within five years of the reporting date; and (b) the date of preparation or update should be disclosed.***

24. We agree that the underlying projections should be updated and reviewed. Three to five years would be the most appropriate time periods. However, going back to our original points in question 2 we do not agree that long-term sustainability reporting should be within the GPFs.
25. We hope you find our response useful and are more than happy to provide further clarification on any of the points made. Please feel free to contact Gillian Fawcett (Head of Public Sector) on tel. 02072395674 or by e-mail, [Gillian.fawcett@accaglobal.com](mailto:Gillian.fawcett@accaglobal.com)

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Fawcett', written in a cursive style.

Gillian Fawcett  
(Head of Public Sector)