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United States Government Accountability Office  
Washington, DC 20548

April 30, 2010

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

Subject: International Public Sector Accounting Standards Board (IPSASB)  
November 2009, Consultation Paper: *Reporting on the Long-Term Sustainability of Public Finances*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IPSASB *Consultation Paper: Reporting on the Long-Term Sustainability of Public Finances*. We commend the IPSASB on its efforts towards developing guidance for presenting information on long-term fiscal sustainability. Current general purpose financial reports convey information primarily about an entity's past transactions and prior economic events and do not provide the type of prospective information that is crucial for assessing the long-term financial condition of government programs. Complementing the current general purpose financial reports with forward-looking information on the government's long-term ability to meet its service delivery and financial commitments both now and in the future would provide more robust financial information for more informed decision-making by users. Also, we agree that the presentation of information on long-term fiscal sustainability is necessary to meet IPSASB's proposed accountability and decision-making objectives of financial reporting. In addition, as noted in the Consultation Paper, long-term fiscal sustainability information could be presented by both accrual basis and cash basis financial statement preparers.

We also appreciate that the IPSAS guidance may likely be utilized for a number of national governments and as such to accommodate the differences between government financial reporting practices and special considerations that flexibility is an important concept for consideration.

The Board has asked respondents for comments on the Preliminary Views in the Consultation paper. We provide the requested answers and comments in this letter.

## **1. Preliminary View**

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's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (section Two.)

### **Comment 1**

We agree. We support the IPSASB's efforts towards developing guidance for presenting information on long-term fiscal sustainability and believe that the presentation of such information is an important and necessary step towards meeting the objectives of the proposed IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. Current general purpose financial reports (GPFs) convey information primarily about an entity's past transactions and prior economic events and do not provide prospective information on the long-term financial condition of government programs to meet IPSASB's financial reporting objectives.

In a similar manner, the GAO supported enhancements to U.S. federal accounting and financial reporting standards to more effectively convey the financial condition of the U.S. government and annual changes therein. In 2009, the Federal Financial Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards 36 (SFFAS 36) titled, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. SFFAS 36 provides information to address the FASAB Stewardship objective for financial reporting which includes assisting users in assessing how the government's financial condition has changed and may change in the future. It further states that federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they become due. SFFAS 36 represents a key effort towards improving the transparency of the U.S. government's long-term financial condition and providing a comprehensive perspective on the projected future funding and spending for all federal government programs. Such comprehensive information on the U.S. government's financial condition will provide important information to the public and policy-makers for decision-making and so that prudent action can be taken. This effort will build on the U. S. government's experience in preparing and auditing the Statement of Social Insurance, which has received an unqualified opinion from GAO for fiscal years 2007, 2008, and 2009.

## **2. Preliminary View**

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through additional statements or summarized projections in narrative reporting (Section Three).

## **Comment 2**

We encourage the development of guidance proposing that long-term fiscal sustainability information in GPFRs ultimately be presented through additional financial statements, complemented by summarized information on projections described in narrative reporting. We believe that a statement of long-term projections that illustrates receipts and non-interest expenditures disaggregated by major programs with disclosures such as the assumptions underpinning those projections can provide users with more readily accessible information on the government's long-term ability to meet its service delivery and financial commitments both now and in the future. Summarized narrative reporting of key aspects of the basic statement of long-term projections could be highlighted in summary sections of the GPFRs and could refer to the basic statement for further detail. In addition, we encourage that the guidance for summarizing projections provides flexibility and not be overly prescriptive or significantly redundant to information that is presented in other parts of the GPFRs. At the same time, we realize that including fiscal sustainability reporting in narrative reporting rather than as additional financial statements may be a necessary interim step for some reporting entities.

The U.S. federal government has adopted an approach that requires that long-term fiscal projections of inflows and outflows for the U.S. Government be presented in a basic financial statement<sup>1</sup> that displays projected amounts as both present value dollars and a percentage of the present value of gross domestic product (GDP) for the projection period and includes related disclosures. Key aspects of the basic statement are highlighted in the Management Discussion and Analysis section of the Financial Report of the U.S. Government. Under a phased-in implementation approach, the information in the basic financial statement and disclosures will be presented as unaudited required supplementary information for fiscal years 2010-2012.

## **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.

## **Comment 3**

We agree that, as a first step, fiscal sustainability guidance should be developed for the same reporting entity used to report consolidated general purpose financial statements. We believe that this may provide greater clarity between the sources of funds available to the reporting entity and the scope of obligations that an entity must meet. At a subsequent time, guidance for other levels of government such as the sub-national levels could be considered.

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<sup>1</sup> and related disclosures beginning 2013

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

#### **Comment 4**

We encourage the development of guidance that is flexible in its approach and can accommodate a range of government specific concerns relating to long-term fiscal sustainability such as mentioned in the preliminary view 4 noted above. It is our view, however, that as an initial step the guidance for long-term fiscal sustainability indicators be targeted to those that are meaningful at a national government level. Subsequently, guidance relating to indicators that are more relevant to other levels of government could be developed. We also agree that prior period comparative information be provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed. In addition, we believe that adding a discussion of the relative advantages of each type of indicator of long-term fiscal sustainability would improve understandability. Further, disclosure of several complementary indicators may be necessary to appropriately convey fiscal sustainability information (e.g., scale of any fiscal sustainability challenge, the timing of the challenge, the size of policy actions required to achieve fiscal sustainability goals, etc.).

In addition to disclosure of indicators, we believe that the IPSASB should recommend including additional disclosures considered necessary to adequately communicate relevant information to assist the user in understanding and assessing the government's fiscal sustainability. Examples of such disclosures could include:

- A narrative discussion of the inherent limitations of projections, including uncertainty;
- Major factors expected to have a significant impact on the projections;
- Trends in historical and projected receipts and expenditures, including the period after the end of the projection period; and
- Costs of delays in making policy changes

#### **Preliminary View 5**

IPSASB guidance on long-term fiscal sustainability reporting in GPFR should recommend that the entity disclose any deviations from the principle that long-term fiscal sustainability projects are based on current policy; the basis on which projections of inflows from taxation and other material resource sources have been made, any other key assumptions underpinning long-term fiscal sustainability projections.

### **Comment 5**

We believe that projections should be based on current policy and not based on future events. More specifically, we suggest that projections, including expenditures that are not individually projected, be based on reasonable assumptions about the future course of receipts and expenditures assuming the continuation of current policy without change. For example, expenditures that are not individually projected could be based on the historical trend in the growth of such expenditures, such as a constant relationship to inflation or GDP growth. We have concerns that, if current policy is not used as a basis for the long-term fiscal projections, assumptions may be selected that may inappropriately distort the long-term projections, particularly if they are proposed but not yet enacted policies. If IPSASB concludes that deviations were acceptable, we would concur that the guidance on long-term fiscal sustainability reporting in GPFR should recommend that the entity disclose any deviations from the principle that long-term fiscal sustainability projections are based on current policy and disclose the potential related effects as part of the sensitivity analysis. Also, we support disclosure of the basis on which projections of inflows from taxation and other material resource sources have been made, and any other key assumptions underpinning long-term fiscal sustainability projections such as policy, economic and demographic assumptions.

To be more informative to readers, we also encourage prior period comparative information and significant explanations for changes when year-by-year comparisons are displayed and that present values are calculated and illustrated when presenting long-term fiscal sustainability projections as well as discount rates used to calculate present value.

### **Preliminary View 6**

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose time horizons for projections as well as the reason for modifying time horizons, discount rates, results of key sensitivity analyses, and steps taken to ensure that projections are reliable.

### **Comment 6**

We agree that guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose time horizons for projections as well as reasons for modifying time horizons, discount rates, results of key sensitivity analyses, and steps taken to ensure that projections are reliable. In addition, we believe that the time horizon selected should, at a minimum, be sufficient to illustrate the government's long-term fiscal sustainability.

### **Preliminary View 7**

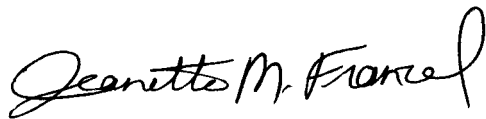
IPSASB guidance on fiscal sustainability reporting in GPFR should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation should be disclosed.

**Comment 7**

We agree that the guidance on the underlying projections for preparation or being updated within five years of the reporting date and that the date of preparation should be disclosed is reasonable given the cost versus the benefit of preparing long-term projections. However, we would encourage more frequent projections to assist users in understanding whether and to what extent the government's financial condition is changing and to meet the accountability and decision-making objectives of financial reporting.

We thank you for the opportunity to provide comments on this important project.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive style with a large, looping initial 'J'.

Jeanette Franzel  
Managing Director  
Financial Management and Assurance