

February 29, 2012

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Dear Ms Fox,

**Re: Exposure Draft 46: Proposed Recommended Practice Guideline:  
Reporting on the Long-term Sustainability of a Public Sector entity's  
Finances**

Following the submission of comments on the Consultation Paper: Reporting on the Long-term Sustainability of Public Finances on April 30, 2010, the IDW appreciates the opportunity to now comment on the draft Recommended Practice Guideline (RPG) mentioned above and would like to submit its comments as follows:

*General Support*

Given the widespread public interest in the challenges currently facing many central governments and other public sector entities throughout the world, the IDW continues to support the IPSASB encouraging public sector entities to prepare, firstly as a basis for informed decision making, and potentially to provide to their stakeholders, information on the extent of the challenge they face in maintaining a sustainable fiscal path.

We agree that, given the fact that the form and content of long-term fiscal sustainability reporting is still evolving, it would not be appropriate currently for the IPSASB to attempt to prescribe a rigid approach, i.e., to develop a Standard.

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB CPA;  
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At the same time, we also see a need for encouraging consistency at an international level in this area. The IPSASB would seem to be the logical body to adopt such a role. We therefore support the development of this RPG, which allows a high degree of judgment on the part of preparers, as opposed to an authoritative Standard at this point in time.

#### *Authority of the Recommended Practice Guideline*

We agree that it is in the IPSASB's interest to encourage application with the RPG. However, we also believe there is a need to discourage public sector entities from "falsely" claiming compliance. Accordingly, we would like to suggest the last sentence of paragraph 2 be amended to read as follows: "As part of reporting on its long-term fiscal sustainability an entity that has fully complied with all or essentially all of this RPG should clearly state that it has followed this RPG and, where relevant, disclose where it has departed from the RPG and explain why such a departure was necessary. In other cases an entity should not claim compliance with this RPG."

#### *Clarification of Recommended Practice and other Considerations*

Recommended Practice Guidelines commonly differ from Standards in that they constitute specific practice that is recommended, as opposed to being required. In contrast, in respect of certain aspects this draft RPG does not "recommend" specific practice, but instead provides a discussion of issues that the preparer will need to consider (e.g., relating to presentation, time period to be covered, frequency of reporting). In other cases, the RPG does put forward more precise recommendations but does not use consistent terminology in so doing. For example, the RPG sometimes states what the entity *should* report in terms of content and accompanying information, sometimes it indicates that *it is helpful to provide* certain information, *consideration can be given to providing*, it is *important that users are made aware*, or even that *entities are advised to disclose*. In our opinion, consistent use of language is preferable to enable preparers to differentiate appropriately between those areas where the IPSASB intends to make a firm recommendation and those where preparers themselves need to weigh up the best way to approach a particular issue.

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### *Assurance Issues*

We would like to suggest redrafting paragraph 51 for a number of reasons. Firstly, assurance by an external auditor can never “enhance the reasonableness and realism of projections” as the proposed wording implies. Assurance engagements serve to enhance the credibility of information, as the practitioner expresses an opinion from which readers then derive a degree of comfort. Secondly, not all information is suitable such that an assurance engagement would be meaningful.

As future projects undertaken by the IPSASB move away from reporting of historical information, the Board will need to bear in mind the impact of such issues on the QCs identified in its own Conceptual Framework, and also related assurance issues.

### *Defining the Subject matter Information*

There does not appear to be consistency in terms used. Taking the first page as an example, we note that the title of the RPG speaks of “long-term sustainability of an entity’s finances”, as does paragraph 1, the first sentence of paragraph 2 and paragraph 5. In contrast, the second sentence of paragraph 2, paragraphs 3, and 4 and the definition in paragraph 7 the term “long-term fiscal sustainability” is used. These terms are used seemingly interchangeably throughout the RPG. Indeed, BC4 merely states that the title was “subsequently re-termed” without further discussion as to reasons or implications, if any. To avoid unnecessary confusion, we suggest a single term be used throughout the RPG wherever the same meaning is intended. Were distinct meanings intended, both terms would need to be defined.

### *Delineation of information on long-term fiscal sustainability from information provided by general purpose financial statements – Type of Pronouncements*

Paragraph 1 explains that reporting on the long-term sustainability of an entity’s finances provides information on the impact of current policies and decisions made at the reporting date.... Paragraph 3 explains that all an entity’s projected flows are included in the scope of this RPG (i.e., the entire entity is depicted – no cherry picking). Paragraph 50 explains that the projections are not forecasts ... actual cash flows will differ from projections. In our view, these three aspects are all key to an understanding of the subject matter of reports prepared in accordance with this RPG and should be made clear to readers within the

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objective section of the RPG. Indeed, as the projections are not even aimed at fulfilling the role of a forecast, it seems to us that describing the information portrayed in such reports as indicative might be more appropriate than describing it as prospective.

We had previously expressed concern at the way the consultation paper had referred to the potential of general purpose financial reports GPFRs to “enhance” the information provided in the traditional general purpose financial statements GPFs. We therefore welcome the discussion in BC5, which indicates that information on prospective inflows and outflows may be needed by users to “supplement” information on the entity’s financial position in the financial statements. Indeed, by its very nature prospective or indicative information, which is based on assumptions and predictions as to future events or conditions, cannot fulfill the role of historical information. We therefore consider it extremely important for the IPSASB to forge a clear distinction between those of its pronouncements relating to the GPFs and those relating to different types of GPFRs. This could be achieved, for example, by using different terminology or names for different suites of standards. Accordingly, in our view, were this RPG to become a more authoritative Standard at some point in the future, it should not form part of the suite of IPSASs applicable solely to GPFs, but form part of a separate suite of GPFRs.

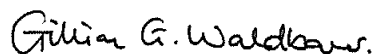
There are also significant audit implications underpinning this proposal, not least whether and what degree of assurance might be meaningfully obtained on information that is of a prospective or indicative nature. In addition, information of such long-term nature will not be useful unless it is sufficiently reliable, any sensitivity analysis not fairly presented, since there is potentially an incentive for entities to “defend” their own policies in presenting the best picture possible.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,



Klaus-Peter Naumann  
CEO



Gillian Waldbauer  
Technical Manager