Proposed International Public Sector Accounting Standard

Social Benefits

Specific Matter for Comment 1:

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

The NAO feels that the scope of this Exposure Draft fits exactly within the ultimate objectives and generally accepted parameters/definitions of Social Benefits; being
a) Benefits given to specific individuals and/or households who meet eligibility criteria;
b) Benefits given to mitigate the effect of social risks; and
c) Benefits that address the needs of society as a whole.

Universally accessible services cannot be treated as Social Benefits, as they are not directly interconnected with the avoidance of social risks and are based on set criteria to be met.

Specific Matter for Comment 2:

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

The NAO fully agrees with the proposed definitions in the Exposure Draft.
In Malta, the Social Security Department is committed to helping maintain the basic well-being and protection of the people. This is in-line with the definitions outlined.

Specific Matter for Comment 3:

Do you agree that, with respect to the insurance approach:

(a) It should be optional;

Being optional gives the Government or Entity in question the ability to determine whether it shall report in this manner, given the particular needs of the Government or Entity. However, this may give rise to lack of comparability between different Government Entities when it comes to analysis and the production of future cash flow figures.

(b) The criteria for determining whether the insurance approach may be applied are appropriate;

The criteria set out are deemed appropriate.

(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and

The relevant international or national accounting standard dealing with Insurance Contracts is to apply, should the Government or Entity opt to treat Social Benefits in this manner.

(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

These additional criteria are very important to determine and disclose the characteristics of Social Benefits in question, given that the original Insurance Contracts Standard was set with a different scope. This added information disclosed to the users of Financial Statements shall help them to understand better the nature, function and ultimate beneficiaries of the Social Benefit in question.

Specific Matter for Comment 4:

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

The NAO is fully aware of the different views and opinions on the Obligating Event Approach.

Paragraph 16 of this Standard clearly states that the past event that gives rise to a liability for a social benefit is the satisfaction by the beneficiary of all eligibility criteria for the provision of the next social benefit, which includes being alive.

The NAO is aware that for a liability to be recognized, should this method be adopted, a beneficiary must satisfy the eligibility criteria for the provision of the next social benefit, even if formal validation of the eligibility criteria occurs less frequently, where it is possible. Where a beneficiary has not previously satisfied the eligibility criteria, or there has been a break in satisfying the eligibility criteria, a liability is recognized at the point that the eligibility criteria are first satisfied. Therefore, being alive at the point at which the eligibility criteria are satisfied is an eligibility criterion, whether explicitly stated or implicit. This implies that a liability cannot extend beyond the point at which the next social benefit will be provided.

On the other hand, the NAO also feels that the obligating event may be dependent on the economic substance of the social benefit scheme. For some social benefits, recognizing a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For others, a liability would be recognized at an earlier point. Moreover, there is no social benefit-specific reason to treat “being alive” differently to other transactions.

Therefore, NAO opines that there must be further discussions to identify the various opinions and to amalgamate these two lines of thought in order to have a clearer explanation to be able to establish an alternative efficient method for the Insurance Approach.

Specific Matter for Comment 5:

Regarding the disclosure requirements for the obligating event approach, do you agree that:

(a) The disclosures about the characteristics of an entity’s social benefit schemes (paragraph 31) are appropriate;

Yes, NAO feels that it is in the users’ interest for the Government and/or entity to disclose all relevant information as requested in the Standard being drafted.

(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate;

Disclosing this financial information in relation to the Social Benefit Scheme is also beneficial to the ultimate users of the Financial Statements and the public in general.

(c) For the future cash flows related to from an entity’s social benefit schemes (see paragraph 34):

(i) It is appropriate to disclose the projected future cash flows;

NAO opines that projected future cash outflows are also relevant, as these figures portray what/how much the Government or Entity are expected to finance in the future period. Thus, the Government or Entity will be able to plan its cash needs ahead to finance such liability which will be due in the forthcoming months/years.

(ii) Five years is the appropriate period over which to disclose those future cash flows.

NAO feels that the five-year period mentioned in the draft Standard may be reduced to three years, given that Social Benefits vary according to the needs and requests of beneficiaries. The reason being that changes in circumstances and eligible criteria may occur frequently, without prior expectation, thus leading to inefficient cash outflow forecasts.

Specific Matter for Comment 6:

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

Advantages

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision-making, and that governments should therefore be providing.

This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

Disadvantages

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

The IPSASB may perform a further study or analysis on the availability, usefulness and effectiveness of such disclosed information and how this information may be of added value to the public. This will enable the Board to establish what the exact needs of the public are, and try to find realistic ways and means to address such requirements.

One must bear in mind that the ultimate reasons behind the disclosure of long-term fiscal sustainability are:

a) to give the user a wider and complete picture of the financial position of the Government or Entity in question vis-à-vis Social Benefits;
b) to determine the Government's or Entity's willingness and ability to continue financing such liability; and
c) to give a complete picture of the social financial responsibility that the Government or Entity in question has to take care of in order to maintain a sustainable economy.