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8 April 2018

Honourable Chairman and Board Members:

Re: ED 63 Social Benefits – Comments.

We admire your tremendous efforts and those of your team members and other stakeholders, in bringing out Exposure Draft on a difficult matter; for improving the accountability of public sector entities. I will be pleased to see these collective efforts achieving its objective. Thank you! Good job! We value and appreciate your efforts!

We are also pleased to contribute to the discourse with our views most resoectfully.

Summary of Comments:

1. The title of the standard gives an impression of a comprehensive standard, Not all the social benefits schemes are described here but few. It is not a stand-alone document.
2. The definition of term social benefit is not what it is understood to be: significant deviation and exceptions create misunderstanding. Social benefits come in different forms: relief to a region hit by a natural calamity is an example though it may be classified differently.
3. Insurance approach is a sounder approach because its funded assets are marked separately.
4. The Standard is silent on the possibility if the management of a social benefits scheme is outsourced to a private sector entity.
5. In directing preparers to IFRS 17, the Board has embraced all its perils and weaknesses. Many preparers find understanding IFRS to be intimidating. In the long-run the IPSASB will need to develop a much focused insurance approach of its own.
6. The alternative approach to account for liabilities and charges is closer to our views. We admit that this will create additional challenges for the preparers.
7. Include a caveat in the standard that achieving the objective of accounting for social benefits properly in the financial statements may require additional measures on the part of the preparers for achieving a relevant and faithful representation.
8. Develop long term fiscal sustainability reporting over next three to five years. It will complicate the process of financial statement compilation but will add value to the use understanding.
9. Find ways to strengthen contact of the IPSASB with stakeholders like government institutions responsible for preparing financial statements, as they are not IFAC members.

Specific Comments:

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)?
If not, what changes to the scope would you make?

Response 1: Yes.

We do not find the title of the standard and its contents to be aligned. First, it gives an impression of a stand-alone document; it is not. Second, social benefits are generally understood to include universally accessible services.

The Board must be at a liberty to define terms the way a situation demands. A risk in defining terms that do not conform to what they are ordinarily understood to mean impair user understanding. Using terms in the general purpose financial statements that deviate significantly from the ordinary meanings is not at all helpful for the cause of user understanding.

We reluctantly concur with the Board because of our keenness to move forward on this issue. We are ready to accept that social benefits come in different forms. There are some which may not be a universally accessible service and there are others which are. We found the exchange and non-exchange nature of a social benefit scheme to be more meaningful and helpful.

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?
If not, what changes to the definitions would you make?

Response 2: Yes.

Again, we find that the definition of social risk para 6(b) would not be satisfied in all cases and creates confusion. “An example is where a government pays a retirement pension to all those over a certain age, regardless of income or wealth, to ensure that the needs of those whose income after retirement would otherwise be insufficient are met. Such benefits satisfy the criteria that they are provided to mitigate the effect of social risks”[1].

We do not agree that every social benefit “address the needs of society as a whole”[2]; apparently it contradicts the immediately following condition that social benefits “are not universally accessible services”. We found the following to be adding to our confusion: “A social benefit that covers a segment of society as part of a wider system of social benefits meets the requirement that it addresses the needs of society as a whole”[3].

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[1] See AG 5
[2] See para 6(c).
[3] SeeAG-6.

Also, we believe that a disaster relief is also a social benefit of special kind of non-exchange transaction. Specifically, we do not agree that: "Because the risk relates to geography rather than individuals and/or households, this risk is not a social risk"[4]. Or, that: "risks related to the characteristics of geography or climate, such as the risk of an earthquake or flooding occurring – are not social risks, and consequently benefits provided in respect of these risks are not social benefits"[5].

Natural disaster such as earthquake are not predictable but they are inevitable. That is why many countries now have disaster relief authorities with dedicated budgets to deal with such eventualities. A geography is inhabited by a segment of society and the relief provided is a social benefit. The fact that the relief benefits a geographical segment and the relief is temporary, is not relevant.

Given the climate change, such relief is a part of wider social benefit. Disaster relief is a social benefit. It may be defined under a separate category.

Specific Matter for Comment 3:

Do you agree that, with respect to the insurance approach:
(a) It should be optional;
(b) The criteria for determining whether the insurance approach may be applied are 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
(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?
If not, how do you think the insurance approach should be applied?

Response 3:

3(a) Yes.

We find the basis of insurance approach to be financially sound. However, we wonder if the option of doing so dilutes the objective of this standard[6] to make a comparison with a scheme doing so on obligating event method. The implications must be mentioned in the text of the Standard, if any.

We fully agree that: "..this [draft] Standard does not apply to insurance contracts, even if the risk covered by the insurance contract is a social risk as defined in paragraph 6 of this [draft] Standard. Insurance contracts are accounted for in accordance with the relevant international or national accounting standard dealing with insurance contracts"[7].

[4] See AG-9.
[5] See AG-10.
[6] "The objective of this [draft] Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits..." See para 2.
[7] See AG-2.

The Standard is silent about the possibility of a government outsourcing the management of a social benefits scheme to a private sector entity. In that case, is the manner in which it is accounted for will completely change?

3(b) Yes, the criteria for determining whether the insurance approach may be applied are appropriate

Our observation is about its requirements of 'assessing the financial performance and financial position of the scheme on regular basis'[8]. Why is the same not made applicable in both approaches?

3(c) Yes, 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.
The Board htook a smart decision of adopting IFRS 17 and conserving its resources and time. However this burden is now on the preparer whose familiarity with the IFRS is a big question mark.

We are sure that the Board must have considered that most of the IFRS are not stand-alone documents (not sure about this one!). The volume of an IFRS is a total let down for a preparer; its text normally contains a lot of stuff that may not be applicable for a social benefit scheme.

The combined effect of all of the above is that insurance scheme may be taken as a big no-no by most preparers, contrary to Board's thinking that it is even sounder approach.

In the long run we think there will be no escape from developing a more relevant, less intimidating approach.

A standard should be a stand-alone document. There is a veil there which conceals challenges for the preparers in the standard on applying this approach.

3(d) Yes.
The additional disclosures required by paragraph 12 of this Exposure Draft are equally appropriate for both approaches.

[8] "There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis" (para 9(b).

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)?
If not, what past event should give rise to a liability for a social benefit?
This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

Response 4: No.

We are not clear why the condition of being alive is given so much importance. As long as the eligibility criteria is met, the liability exists irrespective of a person being alive or not. Similarly there are certain benefits which are directed towards the heirs.
We find the alternative view to better represent our thinking on this matter; It is more representative of financial reality. The facts mentioned should be a part of the financial statements, not as a non-financial information.
We are aware that the alternative view would create challenges for the preparers, possible delays, and total not adoption, if proceeded upon. However, we do not find such causes to be helping the Board in the longer term.

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;
(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
(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; and
(ii) Five years is the appropriate period over which to disclose those future cash flows.
If not, what disclosure requirements should be included?

Response 5:

Subject to our agreement on alternative view on this matter and the changes it may bring:
(a)Yes.
(b) Yes.
(c) No.
(i) No.
(ii) No.

The IPSASB should make it a standard caveat to remind the preparers of its responsibility of relevant and fair presentation of financial statements. This will be primarily achieved by adhering to the requirements of the Standard. However, there may be additional aspects that may be required for achieving the objective and they must assume the responsibility for achieving the substance of such matters.

Specific Matter for Comment 6:

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.

(a) Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?
(b) If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

Response 6:

6(a) Yes, the Board should undertake further work on reporting on long-term fiscal sustainability over a period of next three to five years.

We consider that the advantages of mandatory approach outweight its disadvantages.

6(b) We invite IPSASB to find a way to engage the governments. It's the professional bodies of a country which are members of IFAC whereas in case of public sector entities, the auditor general or equivalent are not. We feel there is a disconnect between the Board and those who are to apply IPSAS in preparing general purpose financial statements GFS in case of Pakistan. The gap should be reduced.

In Pakistan, the Federal and Provincial Governments present its financial statements annually.

Under Article 90 and 99 of the Constitution, Rules of Business 1973 were made which define the administrative structure, allocation and transaction of the business of the executive Federal Government.

"The financial statement of the federal government are prepared by the Accountant General Pakistan Revenues under section 5 of the Controller General of Accounts (Appointment, Functions and Powers) Ordinance 2001"[9]. The Auditor General of Pakistan certifies the financial statements.

"The format of International Public Sector Accounting Standards (IPSAS) Cash Basis – Financial Reporting under the Cash Basis of Accounting has been adopted for the preparation of the financial statements".

In December 2000, Auditor General of Pakistan prescribed New Accounting Model (NAM) with the approval of the President of Pakistan under Article 170 of the Constitution of Islamic Republic of Pakistan. NAM, which conforms to international best practices, comprises of seven volumes and is based on Modified Cash Basis of Accounting in which, though cash basis

[9] See "Financial Statements of the Federal Government for the year ended 30 June 2016. Preface on page 1.

of accounting is followed, the following additional concepts were introduced: Commitment Accounting, Physical and Financial Assets Accounting, Liabilities Accounting.

"Commitment, asset and liability accounting practices are not yet implemented and these financial statements have been prepared on cash basis of accounting and do not include accrued receipts and liabilities".

We wish to see our Government discharge its function of accountability and transparency with a sense of responsibly, in line with the substance of IPSAS. The reality is that it will be sometime before we reach a point where our federal, provincial and district government would graduate from primitive cash receipts and payments basis, which has been rightly discarded by most responsible representative governments (countries).

Why our governments have not been able to implement a system of fair representation[10] is difficult to guess. Enclosure 1 is an extract of a 2012 report prepared by world bank[11] which also ignores this question[12]. Perhaps its expedient and suits their political interests. For example, in cash receipt and payment basis, you do not disclose any details of elements of financial statements and that has been the case for last 70 years.

General Comments:

1. Reword para 2 as: "The objective of the {draft} Standard is to properly account (recognize, measure, and disclose) for the social benefits in the financial statements of the reporting entities, that is relevant, faithful representative and comparable".
2. Provide references of the relevant paras of the Basis of Opinion and illustrative examples in the draft Standard as a memo or foot note.
3. Disclosures which are identical in both approaches may be laid out at a single place. For example, the text of para 10 and 29 is identical. Text is also identical for para 12(a) (i) and 9ii), and 31(a) (i) and (ii).

End of Comments.

Sincerely yours, Altaf Noor Ali Chartered Accountant.

To: The Chairman and Board Members,

International Public Sector Accounting Standards Board. Submitted via email.

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[10] It is difficult to say if anyone from the offices of Controller of Accounts or Auditor General of Pakistan ever engaged in contributing to the IPSAS.

[11] Pakistan: Federal Government Public Financial Management and Accountability Assessment June 2012

[12] The World Bank Report do not mention why non-compliance with New Accounting Model since 2000 did not result in a qualified or adverse audit opinion by the auditor general of Pakistan.

Enclosure 1: Pakistan: Federal Government Public Financial Management and Accountability Assessment June 2012. (Extract)

PI-25 Quality and timeliness of annual financial statements

3.139. Consolidated year-end financial statements are critical for transparency. To be complete, they must be based on details for all ministries, independent departments and de-concentrated units.

	Dimension Score Brief explanation of status	2009	2012
Overall		B+	C+
(i)	Completeness of financial statements	B	C
	The financial statements lack consolidation of independent departments, disclosure of third party payments and some of the grants/loans received. These issues were not considered during assessment in 2009.		
(ii)	Timeliness of submission of the financial statements	A	A
	The financial statements are prepared and submitted to AGP for audit within 2 months from the end of fiscal year.		
(iii)	Accounting standards used	B	C
	Financial Statements are being prepared under cash basis of accounting and are aligned with the format given by the cash basis IPSAS, but gaps remain as stated in note of compliance in the financial statements		

(i) Completeness of financial statements

3.140. Financial Statements of Federal Government are prepared annually on cash basis, which contains, a statement of cash receipts and payments, cash flow, comparison of budget and actual expenditure by function, comparison of budget and actual expenditure by division and statement of appropriation of grants by object for the year. In note 2 to the financial statements for 2010-11 it is stated: "commitment, asset and liability accounting practices have not yet been implemented and memorandum registers for assets and commitments do not exist and accounting of liabilities is not done in accordance with NAM". These issues were not highlighted in 2009 assessment. Considering the lack of full information on financial assets and liabilities, the dimension is rated 'C'.

3.141. Financial statements for the years 2008-09, 2009-10 and 2010-11 contain a stand-alone note on liabilities and assets, however, evidence in support of basis, correctness and completeness of the figures of the note is not available.

3.142. The function of recording and reporting of transactions is undertaken on a cash basis and therefore it does not capture fully the third party payments. The financial statements do not contain consolidated financial information of independent departments. Certain receipts from donors are not reflected in the financial statements e.g. urea received from Kingdom of Saudi Arabia in 2010.

(ii) Timeliness of submission of the financial statements

3.143. AGPR is responsible for preparing the financial statements on behalf of CGA. AGPR is now able to prepare the financial statements within two months from the close of financial year. The financial statements are prepared for fiscal year end i.e. June 30 and submitted to AGP by August 31 every year. The dimension is thus rated 'A'.

(iii) Accounting standards used

3.144. Financial Statements are being prepared under cash basis of accounting and are compliant with the format given by the cash basis IPSAS. NAM was developed using modified cash basis of accounting, which required recording and reporting of liabilities and assets as notes to the financial statements. The financial statements are yet not fully compliant with cash basis IPSAS or NAM. Commitment accounting has been notified but is yet to be made operational in the accounting practices of the Federal Government. Undrawn borrowing facilities and undrawn external assistance disclosure in the financial statement is also not present. Third party payments need to be disclosed separately in financial statements under the IPSAS cash basis for which a column has been included but no amounts are reported.

The full report is available at: https://openknowledge.worldbank.org/handle/10986/26816