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**Private/Confidential**

Ms Stephenie Fox  
Technical Director of the  
International Public Sector Accounting Standards  
Board (IPSASB)  
International Federation of Accountants  
277 Wellington Street West  
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CANADA

29 February 2012

## **IPSASB Exposure Draft 46 Proposed Recommended Practice Guideline: Reporting on the Long-Term Sustainability of Public Sector Finances**

Dear Ms. Fox,

The global organization of Ernst & Young is pleased to comment on the above Consultation Paper.

### **General comments:**

The sovereign debt crisis in the Eurozone continues to impact economies all over the world as well as the public finance deficit in many other countries around the world including the US. As a result of recent developments in this area, we observed increased focus and call for enhanced transparency and accountability from governments, towards their management of public finances. Therefore, we are convinced that reporting on the long-term sustainability of public finances will become one of the cornerstones of good governance for nations.

The information on long-term fiscal sustainability (LTFS) provided by governments is crucial for users to evaluate a government's long-term fiscal position. We acknowledge that reporting information about LTFS is still evolving, but recent developments in Europe have emphasized the importance of a robust framework and guidance that is needed to communicate such information effectively for the benefit of users. Furthermore, it is crucial that countries converge in the area of reporting, including the reporting of LTFS, to move towards closer comparability of information among countries by users. As such, we see this as a project of high priority particularly from the users' viewpoint.

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Some of the terms and concepts used in the ED appear to have been derived from macro-economic concepts but with the intention of applying them at all reporting levels subject to the characteristics in paragraph 15. This may be confusing for preparers, particularly where they have been trained as accountants focusing on the entity level rather than as macro-economists.

We believe that information about LTFS would be relevant at all reporting levels. Communities that are dependent on service delivery from the local municipality would, for instance, have a specific interest in the financial sustainability of that particular municipality, in addition to the sustainability of the government as a whole. However, the focus and nature of the sustainability information of each entity might differ, depending on the level at which it is reported. An example of this, pertaining to the issue of “vulnerability” is provided in point 4 of Appendix B to this comment letter. The ED does not seem to acknowledge this, and does not seem to give guidance on what these differences might be. We urge the IPSASB to consider providing guidance on different levels of reporting.

In our previous comment letter on the Consultation Paper,<sup>1</sup> we supported the IPSASB on issuing guidance for LTFS reporting by governments but to not follow the approach to issue a mandatory standard in the near future as such reporting is still at an early stage. We also note the IPSASB’s reasons as stated in the Basis for Conclusions section (BC) paragraph 20 of ED 46 for not proposing a mandatory standard. However, in light of the sovereign debt crisis, we propose to the IPSASB to reconsider its decision to issue the final form of ED46 as a recommended practice guideline (RPG). If the IPSASB comes to a consensus to issue a mandatory standard, we recommend that the IPSASB prescribes mandatory broad principles with clearly laid out objectives for the information required to be presented and disclosed, accompanied by non-mandatory best practice guidance on how an entity can best meet those reporting objectives. If the IPSASB decides to go ahead with issuing a recommended practice guideline, we would still recommend the IPSASB to clarify the objectives for each recommended disclosure. Please refer to further discussions in Appendix B.

Our comments on the specific matters for comments are set out in Appendix A and we have included other comments which feedback is not specifically sought in Appendix B.

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<sup>1</sup> IPSASB Consultation Paper: Reporting on the Long-Term Sustainability of Public Finances

## Appendix A

### Specific Matter for Comment 1:

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

We believe that public sector entities that are responsible for the provision and delivery of social benefits should be required to provide information on LTFS for their users/constituents. We do not believe that the characteristics as set out in paragraph 15 automatically would scope such entities into the proposed guidance/standard, and propose that the Board include an additional indicator on the responsibility of an entity to provide and deliver social benefits into paragraph 15.

The indicator in paragraph 15(c) is unclear to us, particularly, the notion of ‘wide’ decision-making powers over service delivery levels. We suggest that the Board include guidance on the level of autonomy an entity would have, that would constitute an entity having wide decision-making powers.

Furthermore, although we understand the Board has (according to the Basis for Conclusions) purposefully not limited the applicability to whole-of-government or consolidated national financial statements, we are concerned that little distinction has been made between the type of information that would be relevant at a whole-of-government or macro-economic level versus the type of information that would be relevant at an individual entity level. As mentioned in our cover letter, we believe that the Board should consider what levels of reporting is required and the relevant information to be provided for different levels of reporting.

Although government business enterprises (GBEs) currently fall outside the scope of IPSAS and consequently would not be required to apply this RPG, the users of these entities’ financial statements would benefit significantly from this type of sustainability reporting. We are of the view that the long term sustainability information would be both useful and relevant and therefore should be applied by GBEs as well. We recommend that, where possible, the Board encourage the regulators in the respective jurisdictions to recommend GBEs to make use of the RPG when reporting on long term fiscal sustainability information.

**Specific Matter for Comment 2:**

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

We agree with the dimensions of LTFS and the inter-relationship between fiscal capacity, service capacity and vulnerability as a viable framework for narrative reporting on LTFS of an entity’s public finances. Despite our general agreement with this approach of developing a framework, please refer to our earlier comments about the generality of the concepts and terms used in the RPG, as well as our specific concerns around “vulnerability” in point 4 of Appendix B to this Comment letter.

Furthermore, we are of the view that currently the service capacity dimension is not sufficiently reflected in the ED, for example in the list of indicators as provided by paragraph 20 of the ED.

We also believe that the notion of ‘quality’ within the definition of ‘service capacity’ needs to be expanded. Service capacity as defined in paragraph 30 ‘is the extent to which a) the entity can maintain services at the volume and quality provided to current recipients ...’ We believe that users would be interested and find it useful to understand how quality is achieved, but there needs to be properly defined benchmark, in order to ascertain how and to what extent ‘quality’ is achieved. Information on how this benchmark is determined, and met, would be crucial to determine quality. We stress the importance of quality of service that is performed by the entity for constituents. It is recommended that the RPG clarify these different benchmarks and precisely what entities should measure themselves against, when developing their projections.

We recommend that the service capacity disclosure be, at a minimum, split between a) maintaining services at the volume and quality provided to current recipients, and b) service at the agreed/ specified volume and quality.

**Specific Matter for Comment 3:**

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

We question the relationship between the proposed guidance and other guidance on sustainability reporting that may be relevant to individual jurisdictions. It may be useful to acknowledge the

existence of these other guides, codes and practices and to provide guidance on the minimum level of information required, whether it presented as part of this other disclosure or not.

We also believe that it would be helpful to preparers for the Board to provide more guidance on disclosing environmental factors. For example, the requirement to disclose the ‘impact of the depletion and degradation of ecosystems and erosion of water and finite natural resources on economic growth’ – how should this type of information be presented and disclosed? We would urge the Board to be more specific on this issue, and consider also referencing preparers to other guidance in the field of environmental sustainability. For example, the guidance as provided by the Reporting Framework of the Global Reporting Initiative.

We also stress the importance of the disclosure of ‘impact of legal requirements and policy frameworks’ for fiscal sustainability reporting. For example, EU constituents would be interested and find it useful to obtain information on how the new fiscal mechanism in the EU would impact on a nation’s LTFS. We agree with the rationale that making users aware of the key aspects of governing legislation would enhance the understandability of projections, but more importantly, such disclosures would enhance the transparency of the projections and disclosures provided by the entity, and provide more accountability to the constituents. However, developing countries would need to consider the impact the new fiscal mechanism could have on current and future funding from the European Union (EU) on the donor funded initiatives.

We suggest that the Board be more prescriptive of what the narrative information should cover, and also require preparers to discuss how the quantitative information disclosed links with the qualitative/narrative information. We suggest adding the following wording to paragraph 38:

‘The qualitative disclosures should be provided in the context of the quantitative disclosures, which enable users to link related disclosures and be able to form an overall picture of the nature and extent of risks that the entity faces.’ The interaction between qualitative and quantitative disclosures should contribute to disclosure of information in a way that better enables users to evaluate an entity’s exposures/vulnerability.

In addition, we suggest that entities disclose changes in principles and methodologies from prior period(s), with these recommended wording: ‘For each disclosure, the entity should consider the changes from the previous period and disclose the nature and extent of these changes.’

In addition, it is not clear what should be disclosed if an entity departs from the RPG's principles and methodologies. We suggest that the guidance include a section on how to report that departure, which should accompany the methodologies disclosure.

*Sensitivity analysis:* We believe that as currently worded, the flexibility in presentation format available to entities would impede comparability across entities. We recommend more specific requirements be provided in this regard.

*Reliability of Projections:* It was noted that this paragraph mentions that projections are not forecasts. Our understanding is that projections are normally extrapolations of the current data/statistics whilst forecasts would incorporate assumptions of the future state. We recommend that the Board clarifies this concept in the ED as that would be helpful for both preparers and users.

## **Appendix B**

### **1. Objective of long-term fiscal sustainability reporting should include the concept of intergenerational or interperiod equity**

We believe that this concept is inherent in public sector reporting and should be a central objective of reporting on the long-term sustainability of public finances. We suggest that the Board expand on the objective as currently stated in paragraph 1 to include this concept.

### **2. Overarching principles needed on recommended disclosures**

From paragraphs 17 – 51 of the ED, the Board has provided guidance on presenting projected information, dimensions of fiscal sustainability, principles and methodologies. However, there seems to be a lack of an overarching objective for each of the different areas of reporting, and the lack of the objective that information disclosed should be in a form that meets users' needs.

For example, in paragraph 27, we suggest that the Board include the objective to provide information that a user should be able to use/analyse the information proposed from paragraphs 28-37, in order to understand the 'nature and extent' of the fiscal capacity, service capacity and vulnerability of the entity, besides providing faithfully representative information.

### **3. Definitions of Proposed Guide**

We suggest that the guide better explain the concept "financial commitment", as this has different meanings in different contexts. For example, a financial commitment can refer to either a present economic obligation or liability to be settled in future, or it could be a promise to incur certain costs in the future.

It is noted that the guide includes an appendix with a glossary of indicators; we suggest that the guide include either an appendix or a section also explaining the terminology and terms used in the guide. It is likely that the primary users of this will not necessarily be familiar with all the economic terms that have been used. It was also noted that the definitions of some of these terms might differ depending on the jurisdiction or the branch of economics as a field of research. For example there may be differences in the definitions used by the International Monetary Fund and other organisations.

### **4. Dimensions: Vulnerability**

The use of this term “vulnerability” at the individual entity level seems inappropriate. Public Sector entities that are reliant on government funding are usually considered to be less financially vulnerable than their counterparts that are required to generate their own revenues. We recommend that the Board consider replacing this term with a description that is more relevant at all levels within the economy, for example “extent of reliance on external funding sources”. This issue further supports the view that this RPG is trying to address macro and entity level fiscal sustainability in a single guide, when in fact the issues may differ depending on whether reporting is taking place at a macro (whole-of-government level) and an individual entity level. We suggest that these differences need to be acknowledged and addressed in the RPG.

Yours sincerely,

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Peter Oser

Thomas Müller-Marqués Berger





United States Government Accountability Office  
Washington, DC 20548

February 29, 2012

Technical Director  
International Public Sector Accounting Standards Board  
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Subject: International Public Sector Accounting Standards Board (IPSASB) October 2011 Exposure Draft (ED) of a Recommended Practice Guideline entitled “*Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances.*”

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the IPSASB’s Exposure Draft of a Recommended Practice Guideline regarding long-term sustainability reporting. Our comments will build upon GAO’s previous comments relating to IPSASB’s November 2009 Consultation Paper: *Reporting on the Long-Term Sustainability of Public Finances.*<sup>1</sup>

We commend the IPSASB on its efforts towards developing guidance for presenting information on long-term fiscal sustainability, and we broadly support the objective of the Recommended Practice Guideline: providing guidance on how to supplement the statements of financial performance and position by presenting projections of inflows and outflows and an entity’s projected long-term fiscal sustainability. Complementing the current General Purpose Financial Reports (GPFR) with information on an entity’s long-term ability to meet its service delivery and financial commitments will provide users more robust financial information and allow for more informed decision-making provided that the information is relevant, valid and reliable.

### **Responses to Specific Matters for Comment**

The Board also asks respondents to consider the following specific matters for comment:

1. Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

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<sup>1</sup> U.S. Government Accountability Office’s comments on the IPSASB Consultation Paper: *Reporting on the Long-Term Sustainability of Public Finances* (April 30, 2010).

Yes, we agree that the characteristics of an entity – significant tax and/or other revenue raising powers, powers to incur debt, wide decision-making powers over service delivery levels – as described in the Recommended Practice Guideline are appropriate. We do not see any other characteristics of an entity as broad reaching on an international scale that might indicate the existence of users in addition to those that are described by the Board.

2. Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

Yes, we agree that the three inter-related dimensions of fiscal sustainability – fiscal capacity, service capacity, and vulnerability (as described in paragraphs 27–37) – provide a viable framework for the long-term sustainability reporting of an entity’s finances. Also, we strongly believe that, as discussed in paragraph 27, the presentation should include an appropriate narrative discussion to put the fiscal projections into an appropriate context. Additionally, providing a flexible framework for the disclosure of information is important so that the presentation can be organized in a way that is easily understood by expected users, including the public, and that it is appropriate given the reporting entity’s respective facts and circumstances. Accordingly, we encourage the use of illustrative graphs and tables to help create long-term fiscal sustainability information that is easily understood, relevant, and useful to the financial statement users.

Further, as discussed in paragraph 22, the presentation should be consistent over time to enhance the comparability of the information. We agree that there is a risk that disclosures can be biased to present a misleadingly favorable picture, and we agree with the IPSASB that any modifications to the formats between reporting periods should be highlighted and explained. Additionally, to facilitate the comparison of information between periods, the presentation should include consistent terms and identify the effects of policy. We also agree with the IPSASB that it is a good practice to display a statement that shows the changes in projections between reporting dates, in addition to the reasons for those changes.

3. Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

Yes, we agree with the guidelines on the disclosure of principles and methodologies, including the disclosure of any material or probable risks and uncertainties that may affect revenues or expenditures in the future. We also support the disclosure of the basis on which projections and other key assumptions underpinning the long-term fiscal sustainability projections have been made.

In addition to the points discussed in the ED, we believe that it is important that disclosures should 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.

We also believe that it is critical that the projections are based on current policy and believe that situations where current policy differs from current law should be disclosed. Specifically, we have concerns that if current policy is not used as a basis for the long-term fiscal projections, assumptions may be selected that inappropriately distort the long-term projections. For example, expenditures based on current law may include provisions that have been changed in a consistent direction over a period of time, such as a statutory limit on federal debt that has been consistently raised.

Further, we emphasize the importance of disclosing (a) the sensitivity of demographic and economic assumptions and (b) the results of any key sensitivity analyses to show a range of differences in the projections if the assumptions are varied. Such information is critical for users to understand the assumptions that can significantly affect the projections and the extent to which changes in them can affect the projections.

\* \* \* \* \*

Overall, we support the concept that reporting on long-term sustainability is necessary to meet the objectives of accountability and decision-making. We thank the IPSASB for the opportunity to provide comments on this important project.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin", with a stylized flourish at the end.

James R. Dalkin  
Director  
Financial Management and Assurance



Government of Newfoundland and Labrador  
Department of Finance  
Office of the Comptroller General

February 29, 2012

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

Dear Ms. Fox:

**Re: IPSASB Exposure Draft (ED)-Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

I offer the following comments to IPSASB on the Exposure Draft (ED)-*Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* on behalf of the Provincial Government of Newfoundland and Labrador.

**General Comments**

We do not support a mandatory standard on long-term sustainability reporting of a public sector entity's finances. As such, it is appreciated that the ED proposal has been issued as a Recommended Practice Guideline (RPG). However, there is concern that this may only be a tentative view of IPSASB, at this time, given the importance that it places on reporting in this area. This concern is raised in relation to paragraph BC 6 where it concludes that it would be premature to issue an authoritative pronouncement due to the fact that reporting on long-term sustainability is an area where practice is developing. Concern also stems from the fact that if the scope of financial reporting proposed in IPSASB's Conceptual Framework Project is not limited to financial statements, the proposed guidance for reporting on long-term sustainability may be re-examined later from the perspective of an authoritative standard. If this is the intention, the proposals of this ED are not supported.

In relation, the IPSASB should complete its Conceptual Framework Project before continuing to develop guidance in the area of long-term sustainability reporting. As we previously commented, in relation to that project, it is our position that the scope of the conceptual framework should be limited to historical information and not extended to include prospective and non-financial information.

In terms of positioning of this guidance, there is concern that if the RPG is associated with IPSAS's library of GAAP for general purpose financial reporting, it would give it a perceived authority by the public and the audit community. This perception is based on experience with Statements of Recommended Practice (SORPs) issued by the Public Sector Accounting Board (PSAB), in particular SORP-1 *Financial Statement Discussion and Analysis*. There would be more pressure to prepare this reporting especially given that it is positioned as an accountability document. At this point, the whole aspect of a voluntary guideline becomes irrelevant and the recommended guidelines dictate reporting in an area that a government should have more control (perceived policy document rather than an accounting document). As such, it should remain outside the IPSASB library of GAAP for general purpose financial reporting.

There is also concern that long-term sustainability reporting would create confusion for financial statement users in understanding and interpreting such reporting especially in relation to the annual financial statements and the budget documents. In fact, including prospective information based on assumptions about policy changes that have not been approved by the legislature in general purpose financial reporting is not seen as appropriate for an accounting document; rather it is seen more as a policy document. In particular, reporting transactions that do not meet the definition of an asset or liability would possibly provide information that would be perceived as confusing when associated with financial statements or referenced as a base in preparing sustainability reports. Further, it is questioned whether such reporting is required or even valuable from a government perspective. In Canada, governments currently have guidance on the reporting of financial condition (Statement of Recommended Practice 4 *Indicators of Financial Condition*); however, it is to be noted that the requirements are based on the government's ability to meet its existing financial obligations.

In addition, there are practical concerns regarding long-term sustainability reporting. Given the degree of subjectivity regarding policy decisions to be approved throughout government it would be challenging to project government policy beyond a government's expected term of office. Where long-term projections are made, the validity of any underpinning assumptions are to be questioned. From the perspective of a provincial government, there is also a certain amount of vulnerability in regard to its relationship and funding with the federal government which can affect the usefulness of sustainability reporting. Similarly, there is concern that this type of reporting would not be appropriate or meaningful for the majority of government organizations given that the fiscal sustainability of such organizations would be linked to the sustainability of the government. The practicality of making assumptions regarding sunset provisions as indicated in paragraph 41 (to extent or renew a program) may also not be practical; the legislature would have to approve any changes to legislation and any extension to clauses that would indicate a sunset provision.

Further, there is concern regarding the definitions in the proposal for indicators related to net debt that do not represent the concept of net debt as understood within Canadian Public Sector Accounting Standards. These indicators as described would create confusion and be misunderstood by users. As well, per paragraphs 12 and BC 13, in relation to "consolidated national" and "whole-of-government level" it is not clear if the proposals reflect an understanding of the constitutional structure in Canada; each government (federal, provincial, municipal) is a separate financial reporting entity that would be excluded from the financial reporting of any other government. It is felt that these items require clarification from a Canadian perspective.

While the above comments detail our main concerns regarding this proposal, we provide the following in relation to the specific matters for comment requested by the IPSASB.

### **Specific Matter for Comment 1**

As reporting on long-term sustainability is not deemed mandatory; it is considered appropriate that each entity should have the ability to determine if such reporting is appropriate given its circumstances and user needs. While the characteristics included are valid in assessing if there are users for such reporting; it should only be a guideline. If other considerations are applicable, it should be a part of determining whether to report on long-term fiscal sustainability. However, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

### **Specific Matter for Comment 2**

Yes, it is agreed that the "dimensions" of long-term sustainability that have been proposed provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections. However, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

### **Specific Matter for Comment 3**

Yes, the guidelines provided in this ED on disclosures of principles and methodologies appear adequate. However, paragraph 51 suggests that there are a variety of approaches that enhance reasonableness and realism of projections and specifically notes the formal assurance by an external auditor. This is not supported given the subjectivity of this reporting. In addition, it is to be noted that the Province does not support long-term sustainability reporting from the perspective of an authoritative standard or even a guideline to be positioned in the IPSASB's library of GAAP. Please refer to our particular concerns regarding practical application and positioning of this document as detailed above under *General Comments*.

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,

**RONALD A. WILLIAMS, CA**  
**Comptroller General of Finance**

cc: Terry Paddon, Deputy Minister of Finance

## **IPSASB EXPOSURE DRAFT 46 OCTOBER 2011: “REPORTING ON THE LONG-TERM SUSTAINABILITY OF A PUBLIC SECTOR ENTITY’S FINANCES”**

IRE (Institute of Registered Auditors Belgium, *Institut des Réviseurs d'Entreprises*) is pleased to submit its comments on the IPSASB Exposure Draft 46 ‘*Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances*’.

This exposure deals with the financial forecast reporting ( ex-ante reporting) whereby a proposal is made to systematically add such reporting on financial prospective information to the more traditional (i.e. ex post reporting) by means of the financial statement.

The present comment covers the Specific Matters presented for Comment under item 3.3 of the exposure draft. We take the liberty to also present a series of more general comments.

### **1. Specific Matters for Comments**

#### **Specific Matters for Comment 1** (paragraph 15).

*There are likely to be users for long-term fiscal sustainability information with following characteristics: do you agree with these characteristics?*

- (a) Significant tax and/or other revenue raising powers
- (b) Powers to incur debt
- (c) Wide decision-making powers over service delivery levels

Comment 1 : We do not have any specific comments on this paragraph.

#### **Specific Matters for Comment 2** (paragraph 27-37)

*Do you agree that the dimensions on long-term sustainability provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?*

Paragraph. 27: the fiscal sustainability is subdivided as follows:

- Fiscal capacity = ability to meet servicing and repayment of debt and liabilities without increasing level of taxation
- Service capacity = extent to which (a) the entity can maintain services to current recipients at the reporting date and (b) meet obligations related to entitlement programs for current and future beneficiaries
- Vulnerability = (a) extent to which an entity is fiscally dependent upon funding sources outside its control (e.g. intergovernmental transfers) and (b) extent to which an entity has powers to vary existing taxation levels or other revenue sources.

We have 3 comments on this paragraph.

### Comment 2:

The break-down into these 3 elements is acceptable. Other sources may use different criteria, which are similar, because this matter is still in an exploratory phase. For example, the Canadian CICA<sup>1</sup> uses another rather approximate typology (in each case indicators are also shown):

Sustainability= the extent to which the government can maintain existing programs and activities and meet the financial requirements without increasing the financing burden.

1. Debt/ GDP
2. Deficit / GDP

Flexibility = the extent to which government can increase its financial resources in response to an increase of its obligations by increasing its revenue or the financing burden.

3. Debt Service/Revenue
4. Changes in Fixed Assets
5. Own Revenue/GDP

Vulnerability = the extent to which government depends on financial sources which are out of its control or out of its influence.

6. Transfert between governments/ Own Revenue
7. External Debt/Debt
8. Debt in foreign currency/Debt

### Comment 3

As oppose to e.g. CICA 1997, IPSAS ED 46 remains vague or even very vague as to which indicators could be considered as the best practice to measure “fiscal sustainability”.

### Comment 4

Comparing once again with CICA 1997, IPSAS ED 46 deals succinctly with the concept of “fiscal sustainability”, while this “fiscal” concept should be examined in a broader perspective (not purely from a financial budget concept point of view).

### **Specific Matters for Comment 3 (par 38-51):**

*Do you agree with the guidelines in this ED on disclosure of principles and methodologies including risk and uncertainties? If not, how would you modify these guidelines?*

Paragraph 38 refers to the need for accounting policies on how projections (for the future) are made, on the demographic and economic assumptions used in the financial provisions, as well as for instance the impact of legal decisions, inflation and discount rates, ...

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<sup>1</sup> Canadian Institute of Chartered Accountant (CICA), Research Report: Indicators of Government Financial Condition, 1997.



## Comment 5

No specific comment

## **2. General Comments**

- The approach to mount a system of long term reporting and thus to develop a planning over several years is in line with the development of government reforms in e.g. Belgium and Flanders: long-term planning as programmed by local governments in Flanders, the Flemish Community.
- The exposure draft pays much attention to "Long-Term Sustainability" and the reporting related thereto. Taking into consideration scientific studies, earlier experiences and media coverage (see Greece and its financial condition reporting prior to inclusion in the euro zone), "earnings management", "creative accounting" or "window dressing" may be observed in the financial reporting by governments, a fortiori when reporting deals with prospective financial information.

Paragraph 22 recognizes some risk of bias (skewness) to present a misleading favorable picture, but merely deduces from this the desire to use consistent reporting and formats.

However, in the Institute's opinion there is an important need for high quality auditing and certification, the exposure draft pays little attention to.

- Regarding fiscal capacity, the paragraphs 29-30 shortly discuss the level of debt, but it remains unclear if the financial debt and debts due to purchases and services are eyed here, or rather the pension liabilities. The latter are very important and are traditionally not included in the national debt. A recent German study also suggested to include these liabilities and called it the "implicit debt". The exposure draft 46 could be more explicit on this matter.
- the GDP (Gross Domestic Product) approach as a macro-economic factor is treated insufficiently in this exposure draft 46. See, eg, CICA 1997, while GDP plays a truly major role.
- The approach of central governments whereby GDP, as macro-economic factor, plays an important role should in our opinion be better distinguished in the exposure draft 46 from the local authorities approach.

Indeed, local authorities play a different role than central governments who often determine the monetary policy, the general taxation, etc.



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Our ref MT/288  
Contact Mary Tokar

29 February 2012

Dear Ms Fox

## **ED – Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances**

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board’s (‘IPSASB’ or the ‘Board’) Exposure Draft (‘ED’) entitled *Reporting on the Long-Term Sustainability of a Public Sector Entity’s Finances*, dated October 2011. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

While we generally are supportive of the draft, we have identified specific matters that we believe merit further consideration. These follow below:

### ***Overall Comments***

- a) The objective of the ED is to provide guidance on how to supplement the statements of financial performance and financial position. The status of this Recommended Practise Guidance (‘RPG’) is that public sector entities (except Government Business Enterprises) are ‘encouraged’ to follow this RPG. As such, the ED would not be a required standard, yet terminology included within the ED would seem to require entities to follow the recommendations. Terms such as “should” are used throughout the ED. For example, paragraph 2 states that “an entity should indicate that it has followed this RPG or disclose if it has departed from the RPG and explain why such a departure was necessary”.

Consideration should be given to revising the draft to make clear that compliance is voluntary in all instances and therefore, it should not be necessary to disclose when an entity has not applied voluntary guidance. A useful guide for the Board to consider may be the IFRS Practice Statement ‘*Management Commentary: A framework for presentation*,’ which gives clear guidance on aspects of management commentary. The scope in the Practice Statement describes, for example in paragraph 4, that “The Practice Statement does not mandate which entities should be required to publish

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management commentary, how frequently an entity should do so or the level of assurance to which management commentary should be subjected.”

- b) The ED defines “long-term fiscal sustainability” as “the ability of an entity to meet service delivery and financial commitments both now and in the future”. We would encourage IPSASB to provide more context and background on what “fiscal sustainability”, “service delivery” and “financial commitment” are intended to represent and, in particular, what time frame “in the future” contemplates. There are currently a number of different uses of the terms “sustainability” and “fiscal sustainability” which create a risk of confusion in the marketplace as to the intention of the Board. We believe the ED should provide greater context through explanation and examples in the Objective, Definitions and Scope paragraphs.

The definition of “Long-Term Fiscal Sustainability” in paragraph 7 does not clearly indicate what is meant by “future”. The definition should clarify that judgement needs to be applied in determining the duration of the “future” period to which long-term fiscal sustainability reporting relates, however, the intended minimum period should be clearly stated.

- c) Some of the terminology may not be universally understood, for example “General Government Sector”, “boundary of budget sector” and “system of national accounts”. We believe that these terms will need to be defined or explained so that the Board’s meaning is clear.

***Specific Matter for Comment 1***

You ask whether “we agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15”.

We generally agree with the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability as set out in paragraph 15 of the ED.

We note that characteristic (c) refers to “service delivery levels”, which has not been defined in the ED. We recommend that the characteristic be defined or further explained in the ED, perhaps with examples. We believe that the information on service delivery should be consistent with, and should refer to, the term as used in the IPSASB Conceptual Framework.

Contextualisation of the ED is important for the reader to understand the relevance of the requirements. With regards to paragraphs 14 – 16, the reader should be able to understand why it is important to report on long-term sustainability of finances for preparers to better evaluate whether a particular entity should provide disclosures. The narrative explanations should serve to supplement the characteristics provided. We suggest that it might be helpful to clarify each of the characteristics provided in paragraph 15, with examples.

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We believe additional characteristics could be included as follows:

- a) Decision-making powers to implement public policy for new government programs, which may require significant outflows in future years.
- b) Has significant depreciable assets used for, or necessary to provide, public service delivery (e.g. power stations, water and sanitation and roadway infrastructure).
- c) Has significant long-term liabilities and obligations that may require future funding.
- d) There is significant social dependence on the continuity of the entity.

***Specific Matter for Comment 2***

You ask whether “we agree that the ‘dimensions’ of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections.”

We agree that the dimensions of long-term fiscal sustainability described in paragraphs 27 – 37 are important indicators of long-term fiscal sustainability.

We believe that flexibility should be added as it provides insights into how a government manages its finances. Flexibility is, for example, the degree to which an entity is able to change its debt or tax burden in the economy within which it operates in order to meet its existing financial obligation at the reporting date. Flexibility also might be relevant where a government, that increases its outstanding debt now, reduces its flexibility in the future to respond to adverse economic circumstances that may develop. A government that increases taxation or user-fees today may limit its ability to do so in the future as the rate of taxation approaches the limit of what citizens and businesses are willing or able to bear. Flexibility may include indicators such as the ratio of debt charges to revenues, net book value of capital assets to their gross cost or own source revenues to GDP or taxable assessment (local governments).

The ED’s intention is to address prospective information on long-term sustainability, but the Objective states the RPG is to “provide guidance on how to supplement the statements of financial performance and financial position”. We recommend more clarity be provided on where and how this long-term fiscal sustainability should be reported. KPMG believes that given that the ED is not mandatory and it may take time for governments to achieve the best practice recommended, such material should be outside of the financial statements. However, we believe that this project should continue to be of high importance particularly when considering the conceptual framework discussions around the nature of assets and liabilities, with the longer-term goal of clarifying what information is necessary for the financial statements. It may be possible that this prospective information is excluded from the financial statements but included as part of a public sector entity’s general purpose financial report (‘GPFR’) (i.e. in the annual report) or as a complementary document.

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If long-term fiscal sustainability information were to be included in a public sector entity's GPFR (i.e. in the annual report but not in the financial statements) it is likely to impact the role and responsibility of the auditor. Currently, auditors are required under standards issued by the International Auditing and Assurance Standards Board (IAASB) to read the information in documents that also contain the audited financial statements and the auditor's report and, if not remedied by management, report on inconsistencies of other information with the audited financial statements. If GPFR is expanded to include information such as long-term sustainability, service delivery or prospective financial reporting then auditors may be asked to provide some form of assurance on that information. ISAE 3000, *Assurance Engagements*, is the generic international standard that would be relevant when providing such assurance. In order to provide assurance, auditors require suitable criteria that they can use to evaluate the subject matter of the engagement.

We encourage the Board to engage in a dialog with the IAASB on whether any additional guidance, to supplement that provided in ISAE 3000, is required so that auditors may report on items such as long-term sustainability and prospective financial information.

### *Specific Matter for Comment 3*

You ask whether “we agree with the guidelines in this ED on disclosure of principles and methodologies including risks and uncertainties.”

We generally agree with the guidelines set out in paragraphs 38 through 51, but have the following comments:

**Paragraphs 40 to 42** – We suggest changing the language to ensure that cash flows that are individually modelled should be based upon current policy as well as approved policy arising in the period after the reporting date that have a significant impact on the entity's outflows. Guidance also could be provided to determine when a policy is considered approved similar to that provided in IAS 12.48 with respect to the term “substantively enacted”.

**Paragraph 48** – We believe that a key methodological principle should be to take into account inflation or deflation when making projections. Most economies are subject to inflation. For those that are not, disclosure should be made. Assumptions used in determining inflation and the inflation rates used in the reporting period should be disclosed.

**Paragraph 49** – We do not believe that the example for sensitivity analysis should be limited to inflation. Sensitivity analysis should be provided for any significant assumption (e.g. interest rates, foreign exchange rates) that has a reasonably possible chance of varying from the estimate that could impact the projections. The last sentence should be deleted or it should clearly state that this is only an example of an issue that will need sensitivity analysis. It might be helpful if paragraph 49 included more examples of assumptions on which a sensitivity analysis would be required.

ABCD

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***ED – Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances***

*29 February 2012*

KPMG appreciates the opportunity to respond to this Exposure Draft. Please contact Archie Johnston at +1 604 527-3757, Peter Greenwood at +1 604 691 3187, Mark Jerome at +856 20 7808 3399 or Mary Tokar at +44 207 694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

KPMG IFRG Limited

February 28th, 2012

Madam Stephenie Fox  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2

**RE: Exposure Draft 46 - Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

Dear Madam,

Please find enclosed our comments on the Exposure Draft 46 referred to above.

From a general point of view, we disagree with the IPSASB proposal to issue recommendations aimed at regulating the disclosure of information on the fiscal sustainability of government social programs, especially within financial reports. We believe it is up to governments to decide the type of information to disclose regarding their fiscal sustainability. Indeed, governments are able to publish this information, as they do now.

In its recommendations submitted for this proposal, IPSASB would flag the presentation of information on fiscal sustainability within financial reports. Yet governments already provide information about this in reports other than financial reports, and we believe this information is satisfactory.

Furthermore, because of their taxing power and discretionary authority in modifying the scope or quality of their programs, or in implementing them, published information regarding fiscal sustainability of governments may not be reflective of the future. Governments can change the fees charged for their services or change social programs in order to ensure their long-term fiscal sustainability. Accordingly, we doubt the relevance and usefulness of disclosing such information in financial reports, since they mainly reflect past transactions.

Moreover, preparation of reports on the long-term sustainability of a public sector entity's finances brings many assumptions into play regarding future events, a field of expertise outside the realm of accounting. Thus, differences between projections and the facts are likely to occur, which could affect user confidence and undermine the credibility of reports. Over time, the credibility of reports on the long-term sustainability of public sector entities could be questioned.

...2

With regard to the principles and methodology set out in this exposure draft, we believe, first, that the assumption made in paragraph .40 that current policies will remain unchanged throughout the projection period, may be problematic. In democratic jurisdictions where there are periodic changes in government, policies are likely to change whereas the assumption is to the contrary. This will have consequences, in particular that projections will not be realized and that their usefulness and credibility are likely to be challenged, as we have mentioned above.

Notwithstanding the foregoing, if IPSASB were to decide to continue with the publication of the proposed guidelines, we believe they should be published in a separate manual as good practice and not as recommendations in the standards published by IPSASB. Also, examples of indicators should be given in this manual to ensure consistency among governments if IPSASB wants to move forward with this proposal.

We hope that our comments will be helpful as you continue your work.

Yours truly,

André Miville, CA  
Director General  
Professional Practice

Vicky Lizotte, CA  
Director, Standards





21 March 2012

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

Dear Stephenie

**RECOMMENDED PRACTICE GUIDELINE, REPORTING ON THE LONG-TERM  
SUSTAINABILITY OF FINANCES OF A PUBLIC SECTOR ENTITY**

Please find attached the New Zealand Treasury's comments on the above proposed recommended practice guideline. The comments have been prepared by staff involved in the preparation of such reports in New Zealand.

Please accept our apologies for sending this submission later than your requested deadline.

Yours sincerely

A handwritten signature in black ink, which appears to read 'P. Rodway'.

Paul Rodway  
for the Secretary to the Treasury

## **New Zealand Treasury's Response to Exposure Draft 46: Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**

### **Overall Comment**

These comments are limited to central government reporting (as we know little about the sustainability reporting by local governments) and so say nothing about the vulnerability dimension of fiscal sustainability in the sense of the relative certainty about transfers from other levels of government.

### **Specific Matter for Comment 1**

*Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.*

First, we think there should be some clarity around what is meant by an "entity." We realise you want to be generic about levels of government, but feel that the way the draft is written this could be taken to mean a department, or other agency. In your scope section, you could clarify this, by providing a few examples (or put them into the Basis for Conclusions section).

In light of paragraph 15, it doesn't make much sense to report on the (long-term) fiscal sustainability of a single agency. It has to be a single level of government, ie, one following *all three* of the characteristics in paragraph 15. Then fiscal sustainability becomes a choice issue and makes more sense. The list of characteristics of a reporting entity is useful and perhaps you mean it to signal reporting only at a (near complete) government levels (with or without the GBEs).

### **Specific Matter for Comment 2**

*Do you agree that the "dimensions" of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?*

The dimensions of fiscal sustainability are also associated with economic and demographic uncertainty – this could be brought out more in how the concepts are explained.

The three linked dimensions – fiscal capacity, service capacity, and vulnerability – are useful concepts that we'll try to bring out more in our next report. We generally use net debt as our long-term measure of fiscal capacity. Soon after the five-year forecast period, we settle down to a constant level of tax to GDP, and look to see what changes are needed to the budget balance (tax and spending) to achieve the government's long-term net debt objective (derived from our legislated fiscal framework). This allows us to go beyond the reporting framework to discuss potential policy choices and trade-offs in spending and taxation to bring this about. It

also enables a discussion over which policy choices improve intergenerational equity, are supportive of long-term growth and protect the vulnerable in society (overall policy goals).

Implicit in the service capacity measure is the notion of projecting revenue and expenses under current policy. This is also canvassed in paragraphs 40-42. Current policy is a tricky concept and could be broader than the limitation in paragraph 40. A couple of examples:

- Keeping current policy around individual taxation with progressive rates will mean that with income growth eventually everyone is on the top rate. So the point at which you decide to break with this current policy and hold taxation as a fixed ratio of GDP (part of the recipe for the fixed capacity measure) is a reportable choice for the modeller.
- Another example is the indexation of welfare benefits. In New Zealand, past practice is for these benefits to grow with prices annually. Over the long term, this will mean that beneficiaries will fall further and further behind wage earners and people receiving the wage-indexed public pension. We have always reported these payments using CPI indexation, but notice the reporting of some other countries adds more of general wage growth part way through their projections (recognising the political pressures on CPI indexation over the long run).

Vulnerability could be broader than the *power* to raise taxes, but rather the *ability/costs* of governments to do so. For example, it could also show up in the tax competition national governments face over increasing tax rates from relatively mobile tax bases (individuals and firms). This is more of an issue for small, open economies.

### ***Specific Matter for Comment 3***

*Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?*

We are in general accord with the guidelines around reporting on principles and methodologies (we think we do these!). Sensitivity analysis is essential to show the effects of bracketed choices around the "best pick" assumptions. Another way of dealing with uncertainty around a median projection is using stochastic projections.

Paragraph 50 on the reliability of projections is an issue we are facing as our (unofficial) unconstrained projections have varied greatly with the state of the economy and the fiscal policy responses to the global financial crisis and the domestic recession. This makes the projections vulnerable to criticism about their worth and is making us look at ways of doing the projections that are more neutral to the short-term business cycle and the current government's (hopeful) fiscal consolidation plans.

We agree with the guidelines about external scrutiny of our projections (paragraph 50). Part of this process is to have our work (and assumptions) challenged by an external advisory group of former politicians, academics, and media commentators. Many of them are also producing

independent research on some of the issues. Our next report will draw on their commentary and research.

### ***Other Matters***

It's ironic that "sustainability" is sometimes taken to mean just environmental sustainability, but governments and their agencies so far do a relatively poor job in including the long-term fiscal impacts of environmental sustainability in their fiscal reporting.

In paragraphs 17-26, you lay out practice guidelines for projections of outflows and inflows. These all seem fine. We agree that it is important to report on the changes in projections between reporting dates along with the reasons. We have found that changes in the business cycle and policy settings (not forgetting changes in projection methodologies and supply and demand parameters) at the start of the projections can have a profound effect on the long-term levels of, say, net debt as a ratio of GDP and these changes should be transparent.

As non-accountants, we would like some examples of items not traditionally in a balance sheet mentioned in paragraph 23 (contingent liabilities?).

A minor point: The draft mentions deficits in paragraph 30. In anticipation of happier times, we suggest you use the more neutral term "balance."

Finally, the recommendations could be tightened a little by putting some of the reasons for the recommendations into the "basis for conclusions" appendix.



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**20<sup>th</sup> February 2012**

**The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2  
CANADA**

Dear Stephenie,

**Comments on Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances (ED 46).**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the exposure drafts issued by the International Public Sector Accounting Standards Board (IPSASB). Our specific comments on the Exposure Draft 46 (**Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances**):

**Question 1**

Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.

***Comment***

*We do agree with the IPSASB conclusion as set out in paragraph 15 and BC 12.*

**Question 2**

Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27–37 provide a viable framework for narrative reporting on the long-term sustainability of an entity’s finances that complements and interprets the projections? If not, how would you modify this approach?

***Comment***

*We do agree with the proposal on the “dimensions” of long-term fiscal sustainability. The presentation of information on the long-term sustainability of an entity’s finances should be faithfully representative. We strongly support that Faithful representation could be satisfied by presenting narrative information on both a historical and prospective basis along with three inter-related dimensions of fiscal sustainability (Fiscal capacity, Service capacity and Vulnerability).*

**Question 3**

Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?

***Comment***

*We have no problem with the proposed disclosure of principles and methodologies, including risks and uncertainties. The proposed requirements seem to be adequate to provide guidance on how to supplement the statements of financial performance and financial position and meet the objectives of financial reporting, accountability and decision-making.*

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

**Musonda Boniface**

**Technical Officer**



## Association of Local Government Auditors

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February 27, 2012

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

Re: Response to the International Public Sector Accounting Standards Board  
Exposure Draft, *Reporting on the Long-Term Sustainability of a Public Sector  
Entity's Finances*

Dear Ms. Fox:

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the International Public Sector Accounting Standards Board (IPSASB) Exposure Draft 46, *Proposed Recommended Practice Guideline – Reporting on Long Term Sustainability of a Public Entity's Finances*. Our organization represents 300 audit organizations, totaling more than 1,750 members.

We acknowledge the importance of financial sustainability reporting. In providing our comments we have made use of the current Governmental Accounting Standards Board (GASB) Preliminary Views on *Economic Condition Reporting: Financial Projections*, the International Consortium on Governmental Financial Management's (ICGFM) response, and credit rating agencies' publications, specifically Moody's Rating Methodology.

Our response to the three Specific Matters for Comment is as follows:

- ✓ **Specific Matter for Comment 1** – *Do you agree that the characteristics of an entity that indicate whether users exist for information on long-term fiscal sustainability are those set out in paragraph 15? If you consider that there are more appropriate indicators please provide them.*

While inclusive, we see these indicators as too broad, and we suggest they include additional information to increase their meaning. For example,

consider the following: (1) an entity can have significant tax and/or other revenue raising powers, but if these are concentrated in an area that is vulnerable to economic shifts, government regulations, natural disaster, or attack they can abruptly be lost; (2) an entity's power to incur debt can be vulnerable to political pressures and public sentiment, which is not clear in the guideline; and (3) many sub-national government entities have wide decision-making powers over their service delivery levels but are heavily reliant on federal funding, making them vulnerable to policy shifts. Including additional information would make this guideline a better tool for conducting long-term financial stability assessments.

We also believe the users included in the general purpose external financial reporting (GPEFR) Concepts Statement 1 and Concepts Statement No. 3, Communication methods in General Purpose External Financial Reports that Contain Basic Financial Statements should be included as users within the guideline.

- ✓ **Specific Matter for Comment 2** – *Do you agree that the “dimensions” of long-term fiscal sustainability in paragraphs 27-37 provide a viable framework for narrative reporting on the long-term sustainability of an entity's finances that complements and interprets the projections? If not, how would you modify this approach?*

We agree with the dimensions presented but believe they are not sufficient. To be sustainable the government must be able and willing to generate inflow needed to maintain service commitments and meet financing obligations as they come due while maintaining a balanced inter-period and intergenerational fiscal structure. This is particularly relevant for entities with strong ties to international markets (a retirement fund holding European bonds, for example) or significant reliance on government transfers. All public entities are subject to these risks in some way, and you should address them in their narrative discussion. It should also address reduced requirements that may result from the sustainability services and initiatives of that governmental entity. Furthermore, the definition of long-term fiscal sustainability on page 5, paragraph 7 should be more robust. Consider referencing to the “dimensions” of long-term fiscal sustainability to further clarify the definition of sustainability, which should address the transferring of benefits to future periods as well as the reduction of obligations.



- ✓ **Specific Matter for Comment 3** – *Do you agree with the guidelines in this ED on disclosure of principles and methodologies, including risks and uncertainties? If not, how would you modify these guidelines?*

Overall we agree with the guidelines; however, the IPSASB should consider providing an overarching differentiation between national and sub-national level public sector entities, due to the fundamental differences in the entities debt holding, borrowing, and revenue raising capabilities. These differences could have an effect on long-term fiscal sustainability, and by providing a differentiation through additional language within the guideline or within a separate document could improve the applicability of the guide and simplify the process of long-term fiscal sustainability reporting for those entities. In addition, consider providing example illustrations and narrative, possibly of current affairs, for demonstrative purposes.

In addition, we have some comments for the IPSASB to consider that are outside of the Specific Matters for Comment, which are as follows:

- ✓ In order for this exposure draft to best outline financial sustainability reporting procedures for public entities, we concur with the GASB Preliminary Views on *Economic Condition Reporting: Financial Projections* and the alternative view expressed by Mr. David Bean on page 21 of the exposure draft that public entities should be required to report on fiscal sustainability. However, we still agree with paragraphs 14-16 for determining whether the public entity needs to report on fiscal sustainability. If the capacity exists for a public sector entity to issue a fiscal sustainability report, as evident by the entity's ability to issue general purpose financial statements, it should be expected to do so in order to meet standards. Issuing voluntary compliance guidelines generally indicates some entities will opt out for various reasons.
- ✓ In addition to the two types of public bodies where there are current problems – sub-national entities, such as some trusts, and sovereign governments unable to service their debt – a third category should be considered. This would be the consideration of governments, especially municipalities that have balanced efforts in sustainability including the environment, social equity and the economy. While the emphasis is on not meeting obligations we should also look at benefits exceeding obligations.
- ✓ Reporting Boundary Section, page 6, paragraph 13 – Consider including explanatory language that the budget is primarily concerned with fiscal discipline in the short or medium-term while fiscal sustainability is concerned with the long-term.

- ✓ Presenting Projections of Prospective Inflows and Outflows, pages 7-8 –
  - Paragraph 18 could be improved by including independent credit evaluations (e.g. rating firms such as Moody's and, S&P) of similar public entities as an additional model to reduce reporting costs. These evaluations are a type of sustainability report, although focused on the senior obligations they are addressing. Nonetheless, they are of value.
  - While we acknowledge that relevant time periods differ across entities, we believe the definition should at least somewhat limit the extent to which it can be interpreted. The "long-term" can be interpreted as anything beyond the budgetary or financial period, so we believe this guideline could benefit from more clearly defining this period of time.
  - Consider including Gross Domestic Product (GDP) in paragraph 20.

We appreciate the opportunity to respond to this exposure draft.

Respectfully Submitted,

A handwritten signature in black ink, reading "Kristine Adams-Wannberg". The signature is written in a cursive, flowing style.

Kristine Adams-Wannberg  
Chair, Professional Issues Committee