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United States Government Accountability Office  
Washington, DC 20548

February 29, 2012

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

Subject: International Public Sector Accounting Standards Board (IPSASB) 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.

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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,



James R. Dalkin  
Director  
Financial Management and Assurance