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16 June 2008

Mr David Boymal
The Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West VIC 8007

Dear Mr Boymal

**ITC 15 - REQUEST FOR COMMENT ON IPSASB EXPOSURE DRAFT ED 34
SOCIAL BENEFITS: DISCLOSURES OF CASH TRANSFERS TO
INDIVIDUALS OR HOUSEHOLDS AND IPSASB CONSULTATION PAPER
SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT**

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attachment in response to the Invitation to Comment referred to above.

The views expressed in this submission represent those of the Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Frank McGuiness
Chairman
ACAG Financial Reporting and Auditing Committee

ITC 15: Request for comment on IPSASB Exposure Draft ED 34 Social Benefits: Disclosures of Cash Transfers to Individuals or Households and IPSASB Consultation Paper Social Benefits: Issues in Recognition and Measurement

AASB Request for Comments:

- i. *Whether it should use the IPSASBs work on social benefits, such as issuing an ED based on ED 34 and/or a subsequent IPSASB Exposure Draft or Standard on the recognition and measurement of social benefits, in Australia?*

We recognise that fiscal sustainability is an important issue. As expenditure on social benefit programmes is a substantial component of Australian Government expenditure, we believe that disclosures of expected payments under social benefits programmes would be useful to users of financial reports. We support additional rigour around reporting of these expenditures. In the same vein, the Australian National Audit Office recently proposed the development of standards for reporting tax expenditures.

We agree that ED 34 raises important issues. However, we do not agree with all the proposals contained in ED 34.

Although it is important to explore fiscal sustainability reporting, we do not believe that the AASB should, at this stage, seek to address recognition and measurement techniques for social benefits. The techniques proposed in the IPSASB consultation paper are not consistent with current accounting framework, for example the future payments of social benefit do not constitute a present obligation. Recognition and measurement techniques would be better addressed in the development of a fiscal sustainability framework.

- ii. *Any regulatory issues etc arising in the Australian environment that may effect the implementation of the proposals in ED 34 or the resolution of problems in the consultation paper?*

We see no specific regulatory issues that would effect the implementation of ED 34. We do however note that the principles within the ED depart from the existing accounting framework and thus create a potential uncertainty if the boundaries of the disclosures are not carefully defined.

- iii. *Would the proposals in ED 34 result in financial statements that would be useful to users?*

Disclosures regarding social benefits would be useful to users. However, we believe the specific disclosures proposed in ED 34 would not enhance usefulness of financial reports.

The disclosures would not comprehensively address the full extent to which the government will incur future payments of cash transfer social obligations to those

eligible in Australia. The information would only consist of information regarding participants currently eligible. In particular, a net present value of those payments would not provide relevant information to users.

Further, due to the heavy reliance on assumptions in calculating the proposed disclosures, there is a significant risk of non-comparability between entities and jurisdictions which would reduce the usefulness to users.

iv. Whether the proposals in ED 34 are in the best interests on the Australian economy?

Whilst at this stage we do not agree that an ED should be released proposing this standard, we do agree that the issues that brought about the development of this standard are important for the future. In particular, it would be useful for the AASB to address disclosure of social benefits.

Exposure Draft 34: Social Benefits: Disclosure of Cash Transfers to Individuals or Households

Specific matters for comment:

a. Is the scope of the ED appropriate?

Yes, we believe the scope is appropriate given the intention of the standard to disclose information about the fiscal sustainability of future non-exchange social benefit payments to eligible Australian citizens. We do however believe that future work should address broader issues such as social benefits that relate to goods and services to report comprehensively on welfare programmes.

b. Are the new definitions in paragraph 10 sufficiently clear and comprehensive?

The definitions in paragraph 10 are sufficiently clear and comprehensive. As this is a relatively new topic based standard, it is important that definitions such as these are included in the description of the standard.

c. Are the requirements for the determination of amounts expected to be transferred to eligible individuals or households appropriate?

We do not believe that the requirements for determination of amounts expected to be transferred to eligible individuals or households are appropriate.

In the determination of amounts that will be transferred to eligible individuals or households, the ED proposes that only individuals or households that meet eligibility criterion at reporting date will be used. Although this is a requirement that can be reliably measured, we question whether by limiting these requirements we also limit the relevance of the financial information presented. For example, a particular program may show a decrease in payments over time because at the reporting date it is expected that the number of currently eligible individuals or households will decrease. It does not take into account the expectation that over time many individuals and households, not currently eligible, will enter and leave the programs and receive payments. Unless these payments were included, we believe the proposed disclosures would lack relevance, and therefore not be useful to financial statement users.

d. Are disclosure requirements in paragraph 45 appropriate?

The proposed disclosure requirements set out in paragraph 45 are comprehensive. To further improve disclosure, a statement to the effect that the government has no present obligation to pay those social benefits would be useful.

We do not agree that the requirements of paragraph 45(b) are appropriate. We do not consider that a net present value of payments to only those eligible at reporting date is relevant information. We are concerned that this disclosure would also be difficult to understand and explain to users.

As an alternative, we believe that disclosure would be enhanced if disclosures:

- were presented by specified time bands e.g. less than one year, one to five years, five to ten years;
- present the sum of expected payments to individual and households at reporting date plus projections of individuals and households entering and leaving the programmes; and
- based on amounts expected to be paid, rather than the entitlement level at reporting date.

We are also mindful of the ever increasing requirements on entities to disclose financial information in their financial statements. We would want to ensure that if the disclosures were adopted, their usefulness would far outweigh the additional cost of including them. In this regard, we believe the requirements of 45(a) and 45(c) to be excessive. A government agency may have many programs, and to detail every program and list every piece of legislation could be onerous. Although the ED allows these disclosures to be made in summary form, this also poses problems, particularly in attempting to summarise meaningfully many separate pieces of legislation.

e. Will the disclosure requirements provide information that is verifiable?

As the information that is provided in the disclosure is predominantly based on historical information, information should be verifiable. Assumptions also are important in calculating future social benefits payable, but we believe these could also be verified.

f. Are the implementation arrangements appropriate?

If a standard was to be adopted we agree with the extended timeframe proposed for implementation. This is a new area of financial statement reporting which will require a substantial amount of preparation and work.

Consultation Paper: Social Benefits: Issues in recognition and Measurement

Specific matters for comment:

1. *Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting (GPFR), current statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state reasons*

Yes, we agree that within the current conceptual framework the statement of financial position and the statement of financial performance cannot convey future financial conditions of programs providing social benefits.

We are not convinced that changes to these statements are essential to achieve the objective of adequately informing users of the future costs of social benefit programs. We believe that appropriate disclosures can achieve this objective. The advantage of note disclosure is that it is not constrained by the recognition and measurement principles of the accounting framework.

If financial statements were to include future social benefit payments as a liability, the accounting framework would have to change substantially to allow the recognition of other expected future cash inflows and outflows. We would expect that if this were the case, the recognition and measurement techniques in the consultation paper would also apply to a wide range of other items.

While we acknowledge the importance of managing the fiscal sustainability of the provision of social benefit programs in the future, we do not believe the current recognition and measurement principles should be partially revised to allow this. If further work was to be done on reporting fiscal sustainability into the future, we believe it should be done as a separate reporting framework.

2. *Do you think that a present obligation to individuals or households arises at any time for*
 - a. *Collective goods and services; and/or*
 - b. *Individual goods or services?**If you think a present obligation does arise for either (a) or (b) or both please indicate reasons.*

- a) A present obligation arises for collective goods or services at a point in time at which there is a legal obligation to transfer goods and/or services to the eligible organisations that provide the inputs to the goods and/or services provided to the wider community. The present obligation arises because the government is then committed to a sacrifice of future economic benefits.
- b) A present obligation for individual goods or services occurs at the point in time when there is a legal obligation to transfer goods and/or services to the eligible individuals or households.

3. *Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for*
- a. *Non-contributory programs, and/or*
 - b. *Contributory programs*

If you think a present obligation arises at an earlier point for (a) or (b) or both, indicate the point and reasons.

- a) A present obligation for cash transfers to individuals or households participating in non-contributory programs does not necessarily occur at the time that eligibility criterion are met. The present obligation will only occur when the government has a legal obligation to transfer the cash to the eligible individual or household.
- b) The point of recognition of a present obligation should be the same for contributory as for non-contributory programs.

4. *Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state reasons*

Revalidation does not in itself bring about a present obligation. It will be a requirement that constituents revalidate their eligibility criterion as part of the process of qualifying for the payment of cash transfer payments in the future. The variable nature of differing programs, along with the fact that many programs rely on continuously meeting eligibility criteria would not in itself be an indicator of present obligation. A present obligation would arise at the time when the beneficiary is entitled to the cash transfer.

5. *Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in key issue 6, state reasons.*

While we see the benefits of an “inter-period equity” approach, we do not see it as a substitute for the “assets and liabilities” approach that the Australian public sector adopts in accordance with IFRS.