

February 15, 2012

Mr. Jesse W. Hughes, Chair
ICGFM Accounting Standards Committee
P. O. Box 1077
St. Michaels, MD 21663
United States of America

Subject: IPSAS Exposure Draft

Dear Mr. Hughes:

The Institute of Internal Auditors welcomes the opportunity to provide input to the ICGFM's comments on the International Public Sector Accounting Standards Board Exposure Draft No. 46, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances*. We are pleased to be a part of your review process. We also agree that this should be mandatory rather than voluntary guidance. Many entities may choose to opt out if this guidance is issued as a Recommended Practice Guideline.

We offer the following recommendations relative to the ICGFM ED comment letter:

Paragraph #4 – In addition to sub-national entities and sovereign governments, we believe governments, especially municipalities, that have balanced efforts in sustainability including environment, social equity and the economy should be considered in the context of this ED. While the emphasis is not on meeting obligations, we should also look at benefits exceeding obligations.

Paragraph #4a - If an objective of the ED is to provide transparency where a public sector entity is highly vulnerable to fiscal dependency to funding sources outside its control, it would be appropriate to recognize it as not fiscally sustainable. It is not likely that the potential "rescuing" entity has recognized the obligation to do so in its financial commitments. It would be preferable to change the wording of the last sentence to "On the other hand, it is likely that such Trusts will in some way be 'rescued' by central government so that the health services will in fact continue to be provided."

Paragraph #4b - It would be appropriate for the entity's finances to reflect the projected shortfall. It would be preferable to request the "real world" examples in paragraph 6 without presuming to draw conclusions. We recommend deleting the question in the last sentence of the paragraph.

Paragraph #5 - If they are not sustainable under the policy in effect, it would be appropriate to reflect the challenge to fiscal sustainability using the current projections as they exist. We recommend changing the wording in the fourth and fifth sentences in the paragraph to, "In such cases they would likely have to report that they are not fiscally sustainable because that is the situation under present policies and taxation. This is a major issue because, if this ED is to have value, any country providing IPSAS-compliant financial statements should also report on long term fiscal sustainability."

We have the following additional thoughts on the three “Matters of Comment” for your consideration:

Comment 1 - While certainly inclusive, we see these indicators as too broad and suggest they include additional information to increase their meaning. For example, 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. Additionally, an entity’s power to incur debt can be vulnerable to political pressures and public sentiment, which is not captured. Finally, 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 more specific characteristics would make this a better tool for conducting long-term financial stability assessments.

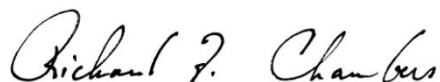
We also believe the users included in Concepts Statement 1 and Concepts Statement No. 3, Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements, should be included as users.

Comment 2 - We agree with the dimensions but believe they are not sufficient. To truly 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 (e.g., a retirement fund holding European bonds or significant reliance on government transfers), but all public entities are subject to these risks in some way and should address them in their narrative discussion.

Comment 3 - We believe the ED could benefit by making an overarching differentiation between national and sub-national level government entities due to the fundamental differences in their debt holding, borrowing, and revenue raising capabilities and the effects these have on long-term fiscal sustainability. Whether this is done through additional language throughout the course of the ED or by creating two separate documents, this would improve and simplify the process of long-term fiscal sustainability reporting.

We appreciate the opportunity to provide input on this comment letter and welcome the opportunity to discuss any of our suggestions at greater length. For any questions or comments, please contact Terri Freeman, Director, Standards and Guidance, at 407-937-1210.

Best Regards,

A handwritten signature in cursive script that reads "Richard F. Chambers".

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors -

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 173,000 members across the globe and has 105 institutes in 165 countries that serve members at the local level.