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June 30, 2004

The Technical Director
Public Sector Committee
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Sir:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) welcomes the opportunity to provide comments on the Invitation to Comment (ITC), *Accounting for Social Policies of Governments*.

The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members.

AGA is a 14,000-member strong association of federal, state, and local financial managers. AGA has been instrumental in developing accounting and auditing standards and in generating new concepts for the effective organization and administration of financial management functions, including the passage of the Inspector General Act of 1978 and the Chief Financial Officer's Act of 1990. AGA conducts independent research and analysis of all aspects of government financial management and is recognized as a leading advocate for improving the quality and effectiveness of government fiscal administration.

The FMSB agrees with the Steering Committee that there is a need for guidance on how to account for social policy obligations in the general purpose financial statements (GPFS) of public sector entities, and to address the financial reporting consequences of governments' actions in providing a wide range of social benefits to individuals and organizations and their undertakings to provide benefits in the future. The FMSB agrees with the majority of the Steering Committee Views as expressed in the ITC. It does, however, wish to make the following specific comments.



Specific Comments

Although the FMSB agreed that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government's social benefits including the assumptions that higher level disclosures are more likely to meet users' needs, there may well be difficulty in measuring the information, especially as regards long-range forecasts. The audit issues that might arise if "sustainability disclosures" were included in the financial statements are the same as would arise when auditing any "estimated" information. Much of the information or factors that relate to sustainability will be subjective.

The FMSB agrees with the following Steering Committee's views:

- Chapter 4 – Its conclusions about the alternate approaches to determine when a constructive obligation arises.
- Chapter 5 – That a present obligation for the provision of goods and services to constituents does not arise prior to the provision of those goods and services, also that any costs incurred in acquiring goods and services for delivery in the future should be recognized in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions.
- Chapter 7 – That the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future, and with the majority view of the Steering Committee regarding old age pension obligations.
- Chapter 9 – That the disclosure requirements in IPSAS 1 *Presentation of Financial Statements and IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets* should apply in respect of social benefits and that additional detailed disclosures of individual social benefits should not generally be required.

The FMSB did not agree with the Steering Committee's Views in two instances. Specifically:

Since social benefits are not well understood, they need to be defined. Such definitions are crucial to both the development of the standards and their eventual implementation. Definitions that are agreed on during the planning stage are necessary to encourage general acceptance of the standards.

The FMSB does not think that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services provided (1) for collective consumption such as national defense, international relations, public order and safety, governance, and (2) to individuals such as for education and for health, are different from those of cash advances provided for use at the discretion of the recipient, specifically child benefits, invalid or sickness benefits, unemployment benefits, and housing benefits. Both are obligations of government, which in all likelihood must be fulfilled in order for a government to ensure its continuing viability. Admittedly, services a government must provide to its people on an ongoing basis lack recognized trigger points that allow for easy measurement, such as the period of eligibility for child or unemployment benefits provides. The FMSB understands that establishing points for recognition and measurement of a government's ongoing obligation for defense, international relations, education, etc. may be difficult, but feels that a government has no realistic alternative to settling these obligations and encourages the Steering Committee to revisit the recognition and measurement basis for such obligations as defense.

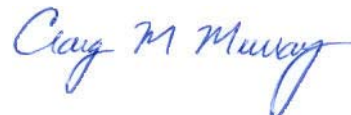
Further, it does not agree with certain Recognition and Measurement Examples given in the Appendix. Specifically:

It does not agree with Example 1 on page 87, which states that there is no present obligation to provide defense services in future periods. At the very least it should be reported as a contingent liability. There is

also an obvious discrepancy between the proposed accounting in Example 2, on provision of education to primary school children and Example 3, on provision of free education to children from low-income families. The government has incurred expense in Example 2 and has a liability to pay for salaries of teachers in the future, yet records nothing. In Example 3, it records both expense and a liability. The substance of the transaction is the same in both examples. The only difference between the two is that a private company does the teaching and is paid for it in the second example. Finally, in Example 5 on page 89, a liability is being recorded for the additional 50 households, for a total of 200, while the past event is only for 150 households. To calculate a liability based on entitlement rather than a trigger event such as an individual's application for the benefit appears to run counter to the arguments used in the ITC to justify not recording a liability for defense or for free education, see 5.10 "...governments do not generally recognize a liability for a government's obligations to deliver goods and services for collective or individual consumption as a liability prior to delivery of the service."

The FMSB appreciates the opportunity to reply to this Invitation to Comment. We had no FMSB members who objected to the issuance of this letter. We would be pleased to discuss this letter with you at your convenience. You can contact me at MurrayC@michigan.gov or (517) 334-8050 or Anna D. Gowans Miller, CPA, AGA's Technical Manager and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 203.

Sincerely,



Craig M. Murray, CPA, Chair
AGA Financial Management Standards
Board

- c. Jullin Renthrope, CGFM, CPA
AGA National President