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Dated 13th July 2004

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

Subject: Comments on the ITC - Accounting for Social Policies of Governments

Sir,

With reference to the subject mentioned above, I am pleased to offer my comments on the ITC on Accounting for Social Policies of Governments for further consideration by the PSC. The views expressed are personal and may not necessarily reflect that of the GASAB, India. As you may be aware, GASAB is the body which is engaged in formulating and proposing standards for Governments in India. A slight delay in the response is regretted.

With regards,

(H. Abbas)

Dy. Director

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Comments on ITC

“Accounting for Social Policies of Governments” issued by IFAC-PSC

(a) Do you consider that separate Exposure Drafts and IPSASs should be prepared for:

(i) old age and similar pensions;

(ii) other social policy obligations?

Comments: No, there should not be separate Exposure Drafts or IPSASs on these topics, as social policy obligations despite variations in different jurisdictions, invariably should include these obligations. However, employee post-retirement benefits including pension, health care, insurance, etc., may be dealt with separately.

However, it is felt that there could be different sub-strata within the category of non-exchange social benefits, which may include transactions like:

- (i) Goods and services in the nature of ‘Public goods’ like national defence, law and order, etc. which are characterized by ‘non-rival consumption’ i.e., one person’s consumption of the goods does not detract from or prevent another person’s consumption and ‘non-excludability’, i.e. not feasible to exclude anyone selectively from the benefits of the good. These in our opinion could be typical **non-exchange transactions** from the government though in some jurisdictions one would wonder as to what happens to my tax that I pay to the government. This we may call pure public goods and as such **collective non-exchange transactions**.
- (ii) There could also be **non-exchange transactions** like disaster or calamity relief, free primary education or free adult education (as in India where education up to a particular level given by government owned schools is free of any cost), rehabilitation programmes for people engaged in scavenging, child labour and having mental or physical disabilities. Old age pension benefits may be classified in this category. This we may call **targeted non-exchange transactions**. Discretionary cash transfers like stipends, scholarships, grants etc. are also in the nature targeted non-

exchange transactions and as such we may classify them here.

- (iii) **Near-exchange transactions** in the nature of subsidized benefits like education, public health care and transportation, etc., where user charges are recovered though not on cost basis.
- (iv) **'Contributory transactions'** in the nature of benefits where both government and beneficiary contribute for defined benefits like old age insurance schemes.

As such, classification of non-exchange social benefits may be done as mentioned above instead of the one proposed in the ITC. This will help grouping as per nature and quantum of non-exchange involved. This will also enable applicability of concept of non-exchange social benefits across jurisdictions.

(b) Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where the pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?

Comments: Yes, social policy obligations arising from unfunded pension plans to provide government employees with benefits as a consequence of their employment should be included in the scope of forthcoming IPSAS as all other standard setting bodies have also issued standards on the same. Further, it is assumed that this will include all the post-retirement benefits arising from the obligation of employment like pension, health care and insurance. This is because though this could be treated as having been provided in exchange of service rendered by the employees and as part of the employment terms; it is still diffused and cannot be determined as to what could be the exact quantum of exchange between the government and the employee. Considering this fact, it may not qualify as pure exchange transactions and may fall under 'near-exchange transaction.' As such, applying option 1, it may not require provision till criteria of eligibility is fulfilled. However, it may be considered whether disclosure by note item on obligations which arise out of entitlement because of employment though eligibility criteria is still to be fulfilled could be included. IPSAS on employee post retirement benefit may take note of that.

(c) Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition. (The ITC includes guidance on the nature of social benefits in Chapter 2 but does not define them. The Steering Committee is of the view that they should not be defined. This is because what constitutes social benefits may vary from jurisdiction to jurisdiction and it is questionable whether an exhaustive definition is appropriate, particularly when it is generally understood what constitutes social benefits in any jurisdiction. The Steering Committee notes that if an item does not qualify for treatment as a social benefit in accordance with the proposals in the ITC, it will be dealt with in accordance with other relevant IPSASs.)

Comments: Scope of social benefits may vary and as such, it may not be possible to put a holistic definition. Though both ITC and GFSM 2001 capture social benefits and social risk with varying scope, while the GFSM 2001 has a limited notion of social benefits (the ITC itself acknowledges that), the ITC also stops short of envisaging a holistic classification schema. As such, it is felt that the classification schema as proposed in response item no.1 above may be considered. However, though social benefits may not be defined, it may be considered whether it is appropriate to include the requirement that financial statements (of a particular jurisdiction) should disclose the criteria and policies of classifying social benefits and what are the social benefits that are included.

(d) Do you agree that the definition of a liability and related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector (see Chapter 3)? If you disagree, please outline the concept of a liability that you believe is appropriate for non-exchange transactions in the public sector.

Comments: Yes, we agree that definition of a liability and related concepts of legal obligations in IPSAS 19 may be applied to non-exchange transactions in the public sector. However, it is important to moderate the concept of constructive obligation with government's action plans and budgetary and planned commitments.

(e) Do you agree with the Steering Committee's conclusions about the alternate approaches to determine when a constructive

obligation arises in Chapter 4? Are you of the view that there are other circumstances in which a constructive obligation may arise? If so, please describe those circumstances.

Comments: Yes, we agree with the conclusions about the alternate approaches and it is felt that option 1 would be more appropriate as the criteria of obligating event as its timing in option 3 is not clear and option 2 has expansive criteria of obligating event creating a continuing obligation.

(f) Do you agree with the Steering Committee View in Chapter 5 that a present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services? Do you agree that any costs incurred in acquiring goods and services for delivery in future should be recognised in accordance with IPSASs or, in the absence of such, other generally accounting practices for dealing with such exchange transactions?

Comments: Yes, we agree that a present obligation for the provisions provision of goods or services to constituents does not arise prior to the provision of those goods and services, as eligibility criteria for individuals would have to be satisfied. We also agree with that any costs incurred in acquiring goods and services for delivery in future should be recognised in accordance with IPSASs or, in the absence of such, other generally accounting practices for dealing with such exchange transactions.

(g) Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in chapter 6 which are provided for use at the discretion of the recipient? If you disagree with this view, please outline your views on how an entity should account for cash advances discussed in Chapter 5 and Chapter 6.

Comments: Yes, we agree with the view that cash advances provided by a government to allow individuals to purchase specified goods and services like education or health as discussed in Chapter 5 differ from cash advances for child benefits, invalid and sickness benefits, unemployment benefits, housing benefits etc., for example, as discussed in chapter 6 which are provided for use at the discretion of the recipient.

(h) Do you agree with the Steering Committee View in Chapter 7 that the principles developed in Chapter 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations

which government will satisfy in future? If you disagree with this view, please identify the factor(s) that make disaster relief and similar specific events different from other benefits as considered in Chapters 5 and 6.

Comments: Yes, we agree that the same principles may be applied in this context as mentioned at paragraph (f) above. However, though they are specific events and may involve either provision of goods and services or cash transfer, nevertheless, they are also non-exchange transactions in a targeted manner. As such, they may be classified as noted at paragraph (a) (ii) above.

(i) Do you agree with the majority view of the Steering Committee regarding old age pension obligations, the minority view or do you have another view (see Chapter 8)?

- (i) If you agree with the majority view of the Steering Committee, are you of the view that additional disclosures about future obligations to provide pensions should be provided?
- (ii) If you agree with the minority view of the Steering Committee, please confirm or outline the conditions you believe need to be present to support the existence of an obligating event.
- (iii) If you have a different view of the circumstances, under which a provision for old age pensions should be recognised as a liability, please outline that view.

Comments: We agree with the majority view of the Steering Committee that present obligation for old age pension benefits arise when individual satisfies all eligibility criteria. We are also of the view that additional disclosures about future obligations to provide pensions should be provided as discussed in Chapter 9 of the ITC.

(j) Do you agree with the Steering Committee View in Chapter 9 that the disclosure requirements in IPSAS1 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?

Comments: We feel that disclosure requirements in IPSAS1 Presentation of Financial Statements and IPSAS 19 Provisions,

Contingent Liabilities and Contingent Assets should apply in respect of social benefits and additional detailed disclosures of individual social benefits should also be required, as that would take care of specific disclosure requirements.

(k) Do you agree with the Steering Committee View in Chapter 9 that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government's social benefits including the assumption that higher level disclosures are more likely to meet user's needs?

Comments: It is desirable to require disclosures about overall sustainability of a government's social benefits. It is assumed that this involves sustainability of the social benefit programmes in terms of their provision with regard to the objective as well as financial sustainability.

(l) Do you foresee any audit issues that might arise if "sustainability disclosures" were included in the financial statements? If so please describe those issues.

Comments: As part of Financial Audit (certification), this may give rise to following issues:

- What are the criteria for mapping sustainability both in terms of sustainable provision and flow of finances; and as such may require additional information the same.
- Issues of materiality and relevance of the disclosure in terms of cash flow and true and fair view of the financial statement etc.

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