

Reporting On and Auditing Sustainability Information

TUESDAY, JULY 16, 1:20 – 2:10 P.M.

Agenda

- FASAB sustainability reporting
- Auditing sustainability information
- International developments

Disclaimer

- Views expressed are those of the individual speakers.
- For FASAB and IPSASB views – see official Board publications.

FASAB Sustainability Reporting

Statement of Social Insurance

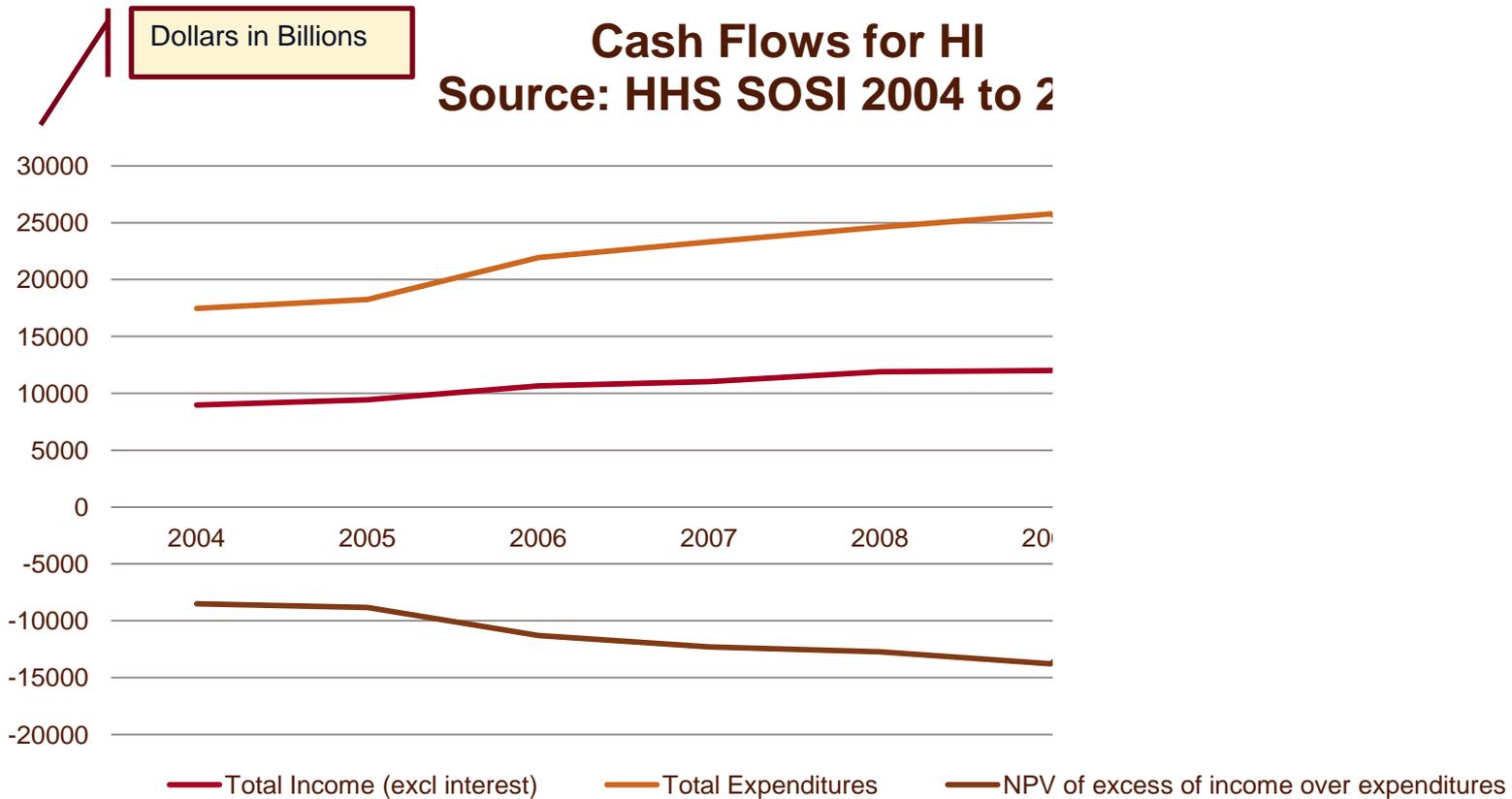
(Social Security, Medicare, Railroad Retirement, and Black Lung)

Social Insurance Summary	2008	2007	2006	2005	2004
<i>Participants who have attained eligibility age:</i>					
Revenue (e.g., contributions and earmarked taxes)	\$ 1,333	\$ 1,260	\$ 1,312	\$ 1,178	\$ 1,071
Expenditures for scheduled future benefits	(12,369)	(11,608)	(10,920)	(10,160)	(9,430)
Present value of future revenue less future expenditures	(11,036)	(10,348)	(9,608)	(8,982)	(8,359)
<i>Participants who have attained age 15 up to eligibility age:</i>					
Revenue (e.g., contributions and earmarked taxes)	29,851	28,342	27,160	25,081	23,767
Expenditures for scheduled future benefits	(67,950)	(63,056)	(61,699)	(56,137)	(52,687)
Present value of future revenue less future expenditures	(38,099)	(34,714)	(34,539)	(31,056)	(28,920)
Closed group -- Total present value of future revenue less future expenditures for current participants	(49,135)	(45,062)	(44,147)	(40,038)	(37,279)
<i>Future participants (those under age 15, and those to be born and to immigrate during period):</i>					
Revenue (e.g., contributions and earmarked taxes)	24,743	22,828	21,227	19,442	18,457
Expenditures for scheduled future benefits	(18,578)	(18,714)	(15,933)	(15,092)	(14,542)
Present value of future revenue less future expenditures	6,165	4,114	5,294	4,350	3,915
Open group -- Total present value of future revenue less future expenditures for current and future participants	\$(42,970)	\$(40,948)	\$(38,853)	\$(35,688)	\$(33,364)

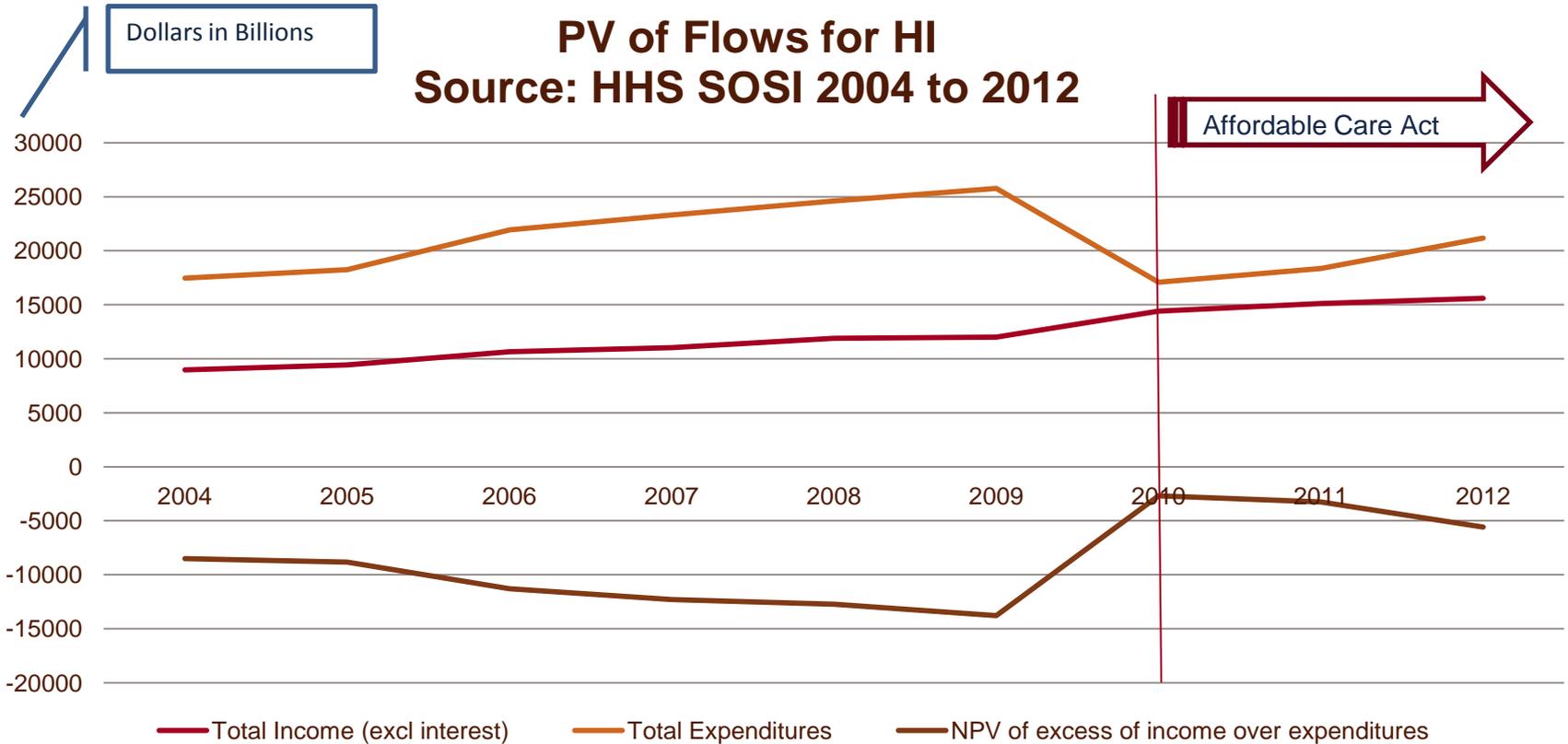
Caution – Data Don't Tell the Story

- But – they provide a start. (Note - only the data in SOSI was considered in the following charts.)
- The graphs that follow show one aspect of public policy – the 75-year cash flows under current law and trends in those flows.
- The graphs do not attempt to assess the value derived from changes in law or amounts after the 75-year projection period.

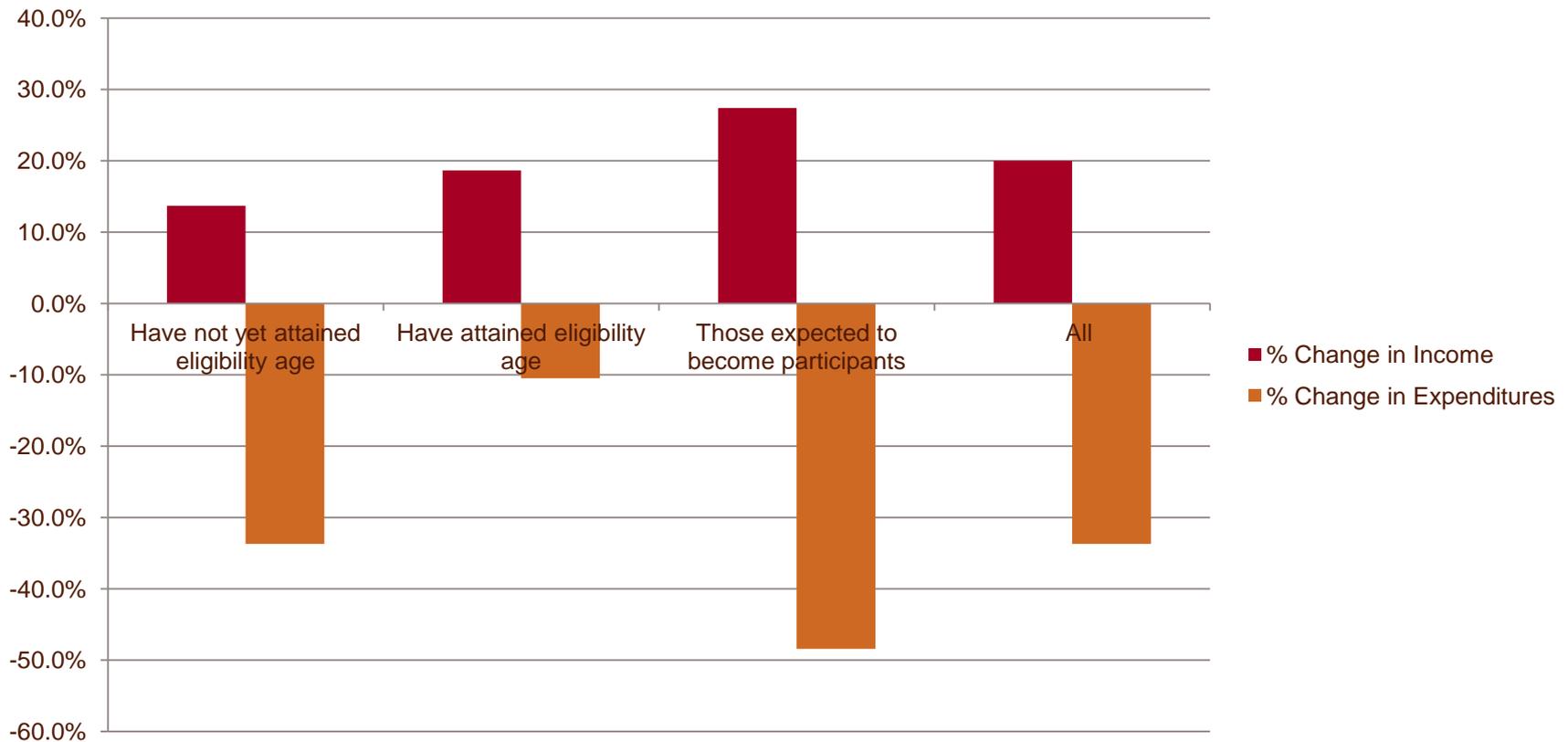
The SOSI Content on a PV Basis



The SOSI Content on A PV Basis



The % Change in Flows by Group from 2009 to 2010



Long-Term Fiscal Projections

- Whole of government projections (\$PV and % in relation to GDP over the period)
- Continuation of current policy thru projection period
- Should be reviewed with notes and accompanying RSI to gain important context.
 - Trends in Debt -- Assumptions -- Alternatives
 - Cost of Delay -- Factors influencing trends

Basic Financial Statement Long-Term Fiscal Projections for the U.S. Government

Amounts projected to 75 years

	As of XXXX XX , 20XX (Current Year)		As of XXXX XX, 20XX (Prior Year)		Change from Prior Year	
	PV Dollars in trillions	% of the PV of GDP*	PV Dollars in trillions	% of the PV of GDP*	PV Dollars in trillions	% of the PV of GDP*
Receipts						
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%	\$ X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
All Other Receipts	<u>XX.X</u>	<u>X.X%</u>	<u>XX.X</u>	<u>X.X%</u>	<u>X.X</u>	<u>X.X%</u>
Total Receipts	\$ XXX.X	X.X%	\$ XX.X	X.X%	\$ X.X	X.X%
Non-Interest Spending						
Medicare	\$ XX.X	X.X%	\$ XX.X	X.X%	\$ X.X	X.X%
Medicaid	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Social Security	XX.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program A	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Major Program B	X.X	X.X%	XX.X	X.X%	X.X	X.X%
Rest of Federal Government**	<u>XX.X</u>	<u>X.X%</u>	<u>XX.X</u>	<u>X.X%</u>	<u>X.X</u>	<u>X.X%</u>
Total Non-Interest Spending	\$ XXX.X	X.X%	\$ XX.X	X.X%	\$ X.X	X.X%
 Non-Interest Spending in Excess of Receipts	 <u>\$ XX.X</u>	 <u>X.X%</u>	 <u>\$ XX.X</u>	 <u>X.X%</u>	 <u>\$ X.X</u>	 <u>X.X%</u>

To maintain the current [or date] level of U.S. Treasury debt held by the public to GDP, actions would need to be taken to increase receipts or decrease non-interest spending by a net present value of \$XX.X trillion or X% of GDP. To accomplish this reduction, annual receipts would need to increase by XX.X% or annual non-interest spending would have to decrease by XX.X% (or some combination of these two options).

Auditing Sustainability Information

75 years of Prospective Information

- Reasonable to ask how we can audit and be associated with the Sustainability Information
- Actual versus estimate results have been significant in shorter periods
- Visceral reactions to being associated with 75 years of estimates
- ...and yet, the SOSI and Sustainability information is probably the most widely referenced information referenced in the media, and used in legislative deliberations
- Relevancy of the audit function

Auditor reporting on SOSI/Sustainability

- Management, Trustees and Actuaries go first
 - Uncertainty highlighted
 - Current law construct called into question
 - Pattern of law/regulatory changes
 - Sustainability of current services questions
 - Alternative projections emphasized

- Selective Trustee extract: “...interpret current-law projections as an illustration...”

- Selective OACT extract: “...current law projections are probably poor indicators of the future financial status...”

SOP 04-1 Auditing the SOSI

- Provides a useful roadmap to suggested procedures and context for auditing SOSI and ultimately can be adapted for other sustainability information
- Nuances that arise between actuarial standards—not unreasonable assumptions versus a “best estimate” construct auditors are somewhat more accustomed to using
- Example reporting construct constraining with objective as stated in example reports “...presents fairly, in all material respects, the financial condition...”

AICPA Prospective Info. Task Force

- Addressing clarity standards to update example reports
- Continued reference to auditing literature versus projection attestation standards
- Modifying example report suggestions to capture more of the nuance of what is being reported
- Not initially designed to change opinion decision with current SOSI fact pattern
- ...present, in all material respects, its sustainability information in accordance with accounting principles generally accepted in the United States of America.

Additional narrative critical context

- In preparing the sustainability statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate the sustainability of current law or policy. The statement of social insurance is based on income and benefit formulas in current law. [The statement of fiscal sustainability is based on the continuation of current policy.] The sustainability statements are not forecasts or predictions. Assumptions underlying such sustainability information do not consider certain potential future events or changes in policy that could affect future income, future expenditures, and sustainability, for example, reductions in scheduled social insurance benefits after related trust funds are exhausted, and implementation of policy changes to avoid trust fund exhaustion [or unsustainable debt levels]. Because of the large number of factors that affect the sustainability statements and the fact that future events and circumstances cannot be estimated with certainty, there will be differences between the estimates in the sustainability statements and the actual results and those differences may be material.

Additional narrative critical context

- The sustainability statements are designed to illustrate the magnitude of policy reforms that would be needed to address the difference between estimated income and expenditures [, and with respect to fiscal sustainability, changes in the amount of debt held by the public resulting from continuation of current policy, a measure of whether current policy is sustainable].

End Game-- symmetry in message

- Trustees, management and actuaries make the case for the estimates, provide context, and if necessary provide alternative presentations to inform the user
- Auditor report contains context to allow user to understand whether the Sustainability Information is consistent with GAAP
- Reporting consequences for current law construct if it appears that it “just won’t happen” or management/trustees/actuaries compelled to emphasize extreme uncertainty in program sustainability at current services level and/or provide alternative estimates that call into question the utility of the estimates in the principal statement

International Developments

International Developments

- The European Commission (EC) and individual countries have been reporting fiscal sustainability information for many years
 - Annual (e.g., EC, UK)
 - Periodic (e.g., New Zealand, Australia)
 - Ad hoc (e.g., Netherlands)

International Guidance

- At its June 2013 meeting, the International Public Sector Accounting Standards Board (IPSASB) approved Recommended Practice Guideline (RPG) 1 entitled *Reporting on the Long-Term Sustainability of an Entity's Finances*

RPG 1 Basics

- Applicable to national and sub-national governments
- Based on reasonable assumptions about current policy
- Time horizon based on characteristics of the entity
- A general purpose financial report (GPFR)
 - may be published as a separate report or as part of another report that includes general purpose financial statements (GPFS)
 - may be published at the same time as the entity's GPFSs or at a different time.

Presentation

- Projections of future inflows and outflows, which can be displayed in tabular statements or graphical formats, and a narrative discussion explaining the projections
- A narrative discussion of the dimensions of long-term fiscal sustainability (service, revenue, and debt), including any indicators used to portray the dimensions
- A narrative discussion of the principles, assumptions and methodology underlying the projections

Key Disclosures

- Key current policy, demographic and economic assumptions
- Significant current policy assumptions that depart from current legislation or regulation
- Explanation of significant changes in the principles, assumptions and methodologies from the previous reporting period
- Results of any sensitivity analyses
- The discount rates applied and the basis on which the discount rate has been determined
- The approach to inflation and the reason for this approach.

International Resources

- RPG1 – www.ifac.org
- *Fiscal Futures, Institutional Budget Reforms, and Their Effects: What Can Be Learned?* By Barry Anderson and James Sheppard
www.oecd.org/gov/budgeting/46051529.pdf
- Fiscal Sustainability Report 2012
http://ec.europa.eu/economy_finance/publications/european_economy/2012/fiscal-sustainability-report_en.htm

QUESTIONS?