
Tourism and Sustainable Development

Sustainability of Public Resources - International Debate

Nistor Cristina Silvia¹

Abstract: Given that public resources are becoming increasingly limited, to discuss the international change of their approach is more and more necessary. Long-term fiscal sustainability is the government's ability to meet financial targets and commitments both now and in the future. Through an empirical approach ED "Reporting on the long term sustainability of public finances," affected by the IPSASB and responses made by respondents, this approach measurable impact on international public accounting system with direct implications on the public Romanian system. The results demonstrate the need to review elements of financial statements of public institutions, concluding that the current form does not provide the necessary information tailored to the principles of efficient, effective and rational use of public resources.

Keywords: public accounting system references; viability; exposure draft

JEL Classification: Q01

1 Introduction

During deliberations on the timing and size requirements on welfare benefits, the International Public Sector Accounting Standards Board (IPSASB) concluded that the traditional general purpose financial statements are not able to satisfy all user needs in assessing the future viability of programs that provide social benefits (IFAC, 2011). Doing some research IPSASB concluded that the information in general purpose financial statements (GPFS) should be supplemented with information on long-term fiscal sustainability of these programs, including their financing. Information on long-term fiscal sustainability enables national governments to improve both the information based on historical financial statements of general traditional (GPFS) and financial information provided in reports of general (GPFR).

¹ Senior Lecturer, PhD, Babes Bolyai University of Cluj Napoca, Faculty of Economics and Business Administration, Department of Accounting and Audit, Address: 1 Mihail Kogalniceanu, Tel.: +40-264-40.53.00. Fax: +40-264-59.19.06, Corresponding author: cristina.nistor@econ.ubbcluj.ro.

Although this Consultation Paper focuses mainly on reporting by national governments, the IPSASB believes that simpler forms of long-term fiscal sustainability reporting are also appropriate for the consolidated reports presented at sub-national levels (IFAC, 2011).

IPSASB considers it important that the information reported on the long-term financial sustainability to meet the qualitative characteristics of financial reporting: relevance, fair presentation of the information, timeliness, understandability, comparability and verifiability. Also revealed are important training bases, principles and methodologies underlying key forecast inputs and outputs. These disclosures would be preferable to include issues such as:

- The main demographic and economic assumptions;
- Sensitivity to changes in these key assumptions;
- The extent to which different modeling approach to forecast or programs focused on a specific age group.

Regarded as a whole report on long-term financial sustainability involves an assessment of the extent to which government policies in accordance with existing legal frameworks can be achieved in the future, assuming certain fiscal constraints, primarily the levels of taxation.

However there is still no definition of long-term fiscal sustainability, widely accepted in worldwide. Economic theory finds the public finance sustainability in the level of budget deficit that does not change (significantly) the ratio between public debt and budget incomes (Easterly et al., 1995). The economic agents have at least a rough idea of the income they will receive during their remaining lifetime and adjust their economic behavior accordingly (Manzke B., 2002)

Long-term fiscal sustainability can be assessed by viewing the trend of expected future operations and capital expenditures, tax implications and the risk that the assumptions used to determine the trend will fluctuate significantly.

This information usually includes: the future cost of goods and services, payroll costs of entitlements programs, the cost of legal service obligations, fiscal and other resource inflows to finance these commitments and obligations. Long-term fiscal sustainability is usually related to issues such as predetermination of net debt to GDP ratio or the ratio of net or gross debt and GDP per capita and maintains a specific level of taxation to GDP. Something could be done also with promotion of high economic growth and low costs of public debt; the later could be achieved with a more active debt management (Dolenc P., 2006)

Starting from identifying the need to ensure sustainability of public resources, in this study we detect the role IPSASB and its specific features (section 2). The content analysis of ED "Reporting on the long term public finances of

sustainability" (section 3) is base for empirical research (section 4), support on the validation of three hypotheses. Interpretation of responses offered by those involved in the debate ED (section 5) allows the formulation of relevant conclusions regarding the future approach to public sector financial resources.

2 IPSASB Scope

International Federation of Accountants (IFAC) comprises over 160 member bodies, 120 countries. Standards Board International Public Sector Accounting (IPSASB) was created in November 2004 and has a mandate to issue IPSASs (representing a "resource" with full rights).

Accounting IPSASB develops standards and guidelines for use by public sector entities. Structures and processes which support IPSASB work is provided by the IFAC. It functions as an independent normalized body.

IPSASB focuses on accounting and financial reporting needs, regional and local. It addresses these needs by issuing guidelines and promotion of reference and facilitates exchange of information among accountants and those working in the public sector or relies on his work.

Strategy IPSASB's is to convert IPSAS with International Financial Reporting Standards (IFRS) issued by the IASB. To facilitate this strategy, the IPSASB has developed guidelines or "rules of the road" for the change of IFRS for application by public sector entities.

The objective of the IPSASB is to serve the public interest by establishing standards of financial reporting for public sector and by facilitating the convergence of high quality international and national standards, thereby increasing the quality and consistency of financial reporting worldwide. Achieving this goal will improve the quality and transparency of public sector financial reports and provide more useful information for financial management and decision making in this sector.

IPSASB develops standards of international public sector accounting standards by which to communicate the public information sector and financial problems:

- have not been adequately treated in international financial reporting standards issued by the International Accounting Standards Board (IASB).
- for which there are not IFRSs.

It is important to note that the IPSASB will judge things in a professional manner to achieve some real conclusions. After reaching a conclusion, the IPSASB will apply the standard configuration process to create the final standards. The IASB

document review process is ongoing and will be evaluated regularly to see if changes are needed to enhance the process. IPSASB achieves its objectives by:

- issue IPSASs;
- promote their acceptance and convergence with international standards;
- publication of other documents that provide guidance on financial reporting issues and practices in the public sector.

3 The ED „Reporting on the long-term sustainability of public finances” analyze

The objective of the IPSASB is to serve the public interest by establishing standards of financial reporting for public sector and by facilitating the convergence of high quality international and national standards, thereby increasing the quality and consistency of financial reporting worldwide. Achieving this goal will improve the quality and transparency of public sector financial reports and provide more useful information for financial management and decision making in this sector.

Standards developed by the IPSASB are not binding, they may represent a starting point or inspiration for every state, will then substantiate their own reporting standards for public sector accounting. There are more than 80 countries worldwide that have adopted IPSAS references or an approximation of their shape. IPSASB adopts a process that builds IPSASs offering interested parties the opportunity to express their opinions on these standards or other problem on this topic. IPSASB Members meet three times a year to approve and develop standards meetings are open to the public. The process is to publish an Exposure Draft contains proposals IPSASB on IFAC's website. The period for submitting responses can be at least four months. After this period all responses are taken into account, and if appropriate, consultation document is restored and reissued. The document is then submitted to the council members vote and is approved if at least two thirds of them voted yes.

The exposure draft issued in November 2009's fiscal sustainability is defined as the ability of governments to continue, both present and future existing policy, without regard to changes in taxation and public services without causing debt to grow continuously as a share of GDP.

This consultation document puts forward a conception IPSASB Preliminary GPFRR's order that must include financial forecasting and other information on the performance of business activities and reporting future objectives and the resources necessary to support this activity. The consultation paper also notes that the

purpose of financial reporting and information that may be provided by GPFR is developing and evolving in response to a number of factors, such as:

- Operating environment faced by firms that prepare GPFR site is constantly changing;
- User needs reliable and relevant information on new and innovative transactions affecting issues such as assessing the financial position and business performance, and addresses their responsibilities.

The issues raised in this consultation document are seven in number, and address the following issues:

1. Presentation of information on long-term fiscal sustainability (sustainable development of the tax system) is required to achieve the goals of the financial report (accounting and decision making) as proposed in the consultation paper IPSASB 'financial report for the conceptual framework of general objectives public sector entities ', issued in September 2008.
2. Directive IPSASB should advise that the information contained long-term fiscal sustainability in GPFR to be provided either by an additional statement to detail the projects, either through narrative reports summarizing projects.
3. IPSASB Directive should be based on the concept of entity should ensure the report and recommended practice for reporting a centralized set of all levels of government.
4. Directive IPSASB should guide that indicators of long-term fiscal sustainability should be chosen for: (a) their relevance to the entity. (B) the extent to which present or qualitative indicators of the financial report. (C) their ability to describe the problem arising from entities tax. In the same way would be to suggest that comparative information be provided, and the reasons for the discontinuation of the indicators report, if there is to be disclosed.
5. Directive IPSASB for reporting long-term fiscal sustainability GPFR suggests that the entity should disclose:
 - Each departure from the principle that projects are based on current policies sustainability;
 - The grounds on which projects for income taxes and other source material were made;
 - Any key assumptions supporting the draft long-term fiscal sustainability;
 - Details of key aspects of the laws and regulations, and macroeconomic policy and fiscal framework are based.

6. Directive IPSASB for reporting long-term fiscal sustainability GPFR suggests that the entity should disclose:

- The time range for fiscal sustainability projects GPFR presented and the reasons for changing time limits and published plans to alter those time limits;
- Rate reduction, together with reasons why they were chosen;
- Accurate analysis results.

7. IPSASB Guide for reports GPFR sustainable fiscal development sites should therefore recommend that:

- The development projects are being prepared or updated within the period of five years from the date of the report.
- Date of preparation or updating to be relevant.

4 Research Design

The main objective of the study is the possibility of increasing the portfolio assessment of IPSAS by creating a new one, on Reporting on the Long-Term Sustainability of Public Finances. So, we formulate the following hypotheses:

H1. To create an IPSAS regarding Reporting on the Long-Term Sustainability of Public Finances is considered useful by most professional bodies of respondent countries, members of IFAC.

H2. Defining specific notions of long term sustainability (e.g. long-term fiscal sustainability indicators, time horizons for fiscal sustainability projections, the form of financial reporting) is clear and concise.

H3. Information about the fiscal challenge is required in order to meet the accountability objective for financial reporting.

To validate or invalidate the formulated hypotheses, we will analyze and interpret the answers given by respondents with reference to the seven topics of discussion raised by the IPSASB on the final form of IPSAS XX Reporting on the Long-Term Sustainability of Public Finances.

In this approach we started from a theoretical approach of the problem of the public accounting regulations with focus on Reporting on the Long-Term Sustainability of Public Finances. Subsequently, through an empirical research we will determine the degree of acceptance of the standard on three levels: on each topic questioned (N=7), on each respondent country (N=32), and as whole. By quantifying 1 (YES) or 0 (NO) we will appreciate the acceptance or refusal of each point (N = 7) under

discussion. Subsequently, we will motivate positive or negative responses depending on specific public accounting system of responding countries.

The scientific research contributes to the efforts to deepen the knowledge required by retrospective nature imposed by the realized normative research, and by the prospective nature, given by the realized empirical research. Among the human socio science methods used in this approach, we can specify: analysis of documents, comparative method and observation method.

5 Results

New regulations on long-term sustainability of public resources are presented in the consultation document "Reporting on long-term sustainability of Public Finances" which is published on the official site of the IFAC issued in November 2009. Under the process adopted by the IPSASB date by which they could submit comments on this topic was in April 2010, following committee members to consider and make decisions based on them.

This consultation document has received 32 comments; those interested in addressing for professional bodies are representing the committees responsible for setting accounting standards in different countries, other entities or individuals. In terms of affiliation of respondents, the situation is as figure 1.

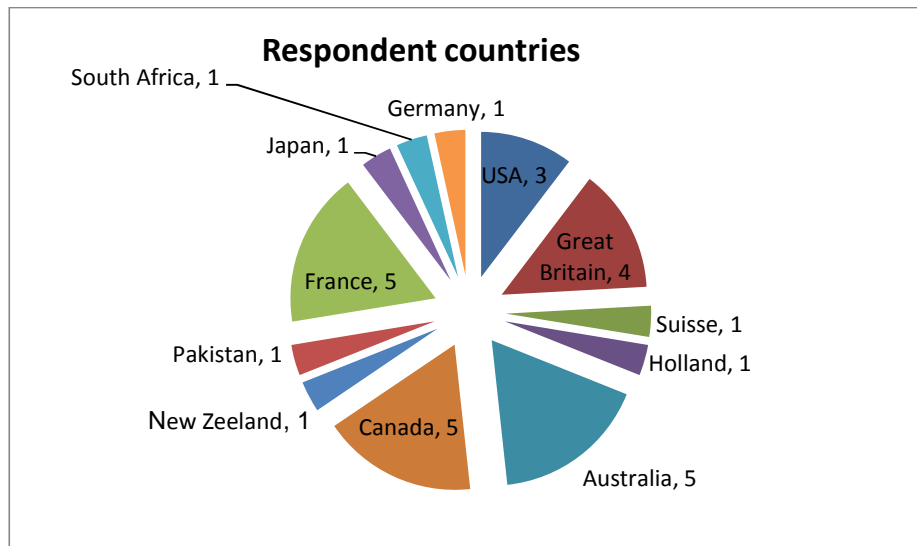


Figure 1. Answers ordered by respondent countries

Most respondents viewed the IPSASB proposals very seriously and argued giving complex answers. Structure responses were generally the same, starting with a letter of thanks for the opportunity given and a conclusion regarding the consultation document on long term fiscal sustainability aimed at IPSASB Technical Director and eventually annexed the detailed commentary on each proposal separately. This approach to problems has helped us centralize the assessment and classification of responses on each question presented in table1.

Tabel 1. Arrangement answers

Question	1	2	3	4	5	6	7
Answer							
Yes	20	19	21	22	24	29	24
No	12	13	11	10	8	3	8

Overall notice a favorable assessment of the issues discussed by the ED (Figure 3), following the separate analysis of the seven points raised during the discussion to reveal the detailed analysis of responses (Figure 4).

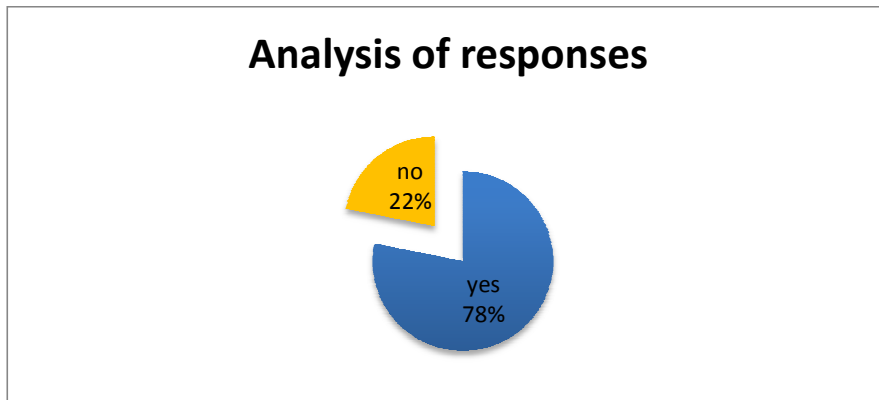


Figure 2. Reply share

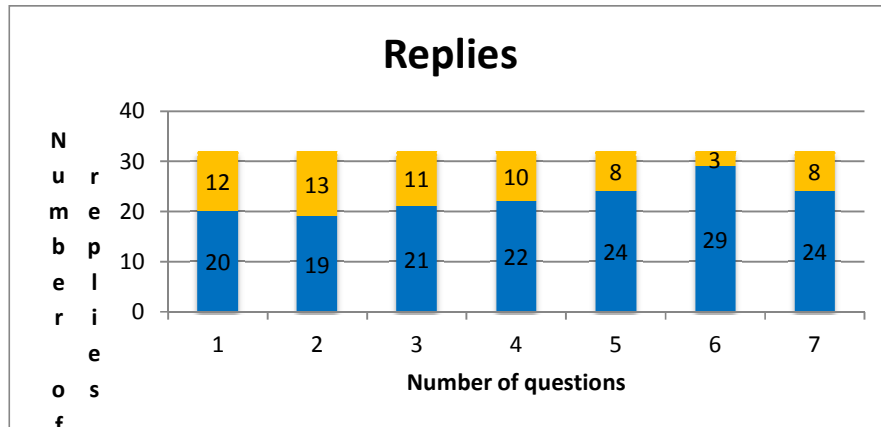


Figure 3. Replies / point under discussion

As can be seen in Figure 3, 78% of the respondents agree in principle with the proposals in the consultation document, although only 10 of them were fully agreed. Those who rejected the proposals have a combined share of 22% even if only three of the respondents rejected them entirely. From Figure 4 it follows that the first four questions were debated, the views of respondents are equally divided, while the vast majority of their last three agree.

IPSASB first proposal on reporting long-term sustainability of public resources is the inclusion of such information in the financial statements of a general nature. As mentioned above and some opinions were divided regarding this proposal as a major force in the sense that it will expand the scope of the information which users have access, while the combatants are of the opinion that such information have no place in a financial report as it relates more to the field of statistics than the accountant. For example ACCA (Association of Chartered Certified Accountants) UK believes that the information on long-term sustainability of public resources of the national government would increase transparency and to support decision making. But have little doubt that long-term financial reporting could help countries be better prepared in the future, but this information might be of interest to international bodies such as European Union, World Bank or FMI. General Directorate of Public Finance in France does not agree with the introduction of information on long-term fiscal sustainability in the report because its generally are not part of the area of accounting and IPSASB should deal with more regulation than the public sector accounting framework. As arguments they make the difference between the objectives of the two types of information and that accounting statements are based on events and facts, having an objective, while the projected data have a strong personality and a degree of uncertainty. General Directorate of Public Finance in France does not agree with the introduction of information on long-term fiscal sustainability in the report because its generally are

not part of the area of accounting and IPSASB should deal with more regulation than the public sector accounting framework. As arguments they make the difference between the objectives of the two types of information and that accounting statements are based on events and facts, having an objective, while the projected data have a strong personality and a degree of uncertainty. General Directorate of Public Finance in France does not agree with the introduction of information on long-term fiscal sustainability in the report because its generally are not part of the area of accounting and IPSASB should deal with more regulation than the public sector accounting framework. As arguments they make the difference between the objectives of the two types of information and that accounting statements are based on events and facts, having an objective, while the projected data have a strong personality and a degree of uncertainty.

The second proposal relates how to make the submission of data on the viability of public resources. The proposal that IPSASB Guide is based on the reporting entity concept and provide recommended practices for developing the consolidated reports prepared by all levels of government, some of the recommendations relate to the fact that information about LTFS (Long Term Fiscal Sustainability) shown in a GPFER should not include information on entities outside the boundary of the reporting entity. It should apply initially to the national government in time to be introduced at other levels because it would provide useful information.

Regarding the recommendation that long-term fiscal sustainability indicators should be selected based on their relevance to the entity, the degree to which indicators meet the qualitative characteristics of financial reporting and their ability to describe the scale of fiscal difficulties facing the entity, CIPFA (The Chartered Institute of Public Finance & Accountancy) UK considers that IPSASB should encourage a more standardized reporting format to facilitate comparability. They also agree that the indicators should be selected based on the extent to which they meet the quality attributes. They suggest that the high level of uncertainty due to economic and demographic data and level of costs necessary, would be helpful if the recommendations IPSASB should be clear regarding the fact that information on long-term sustainability is not within the fair basis under which financial statements are prepared and audited. As contra argument Social Security Council of France argues that by limiting the sustainability indicators, it will reduce the initiative of states to meet their information needs. Thus it is advisable to leave at the discretion of each State, with condition that indicators has to meet the requirements of relevancy and to be known by decision-making body.

The fifth proposal is supported by the vast majority of respondents, however, were brought here a number of amendments including: a first estimate would be based on existing policies, and the results of future policies would be outlined in a another version, and also the choice of indicators should be objective and based on key assumptions and scenarios to avoid political interference or managerial.

Regarding discount rate that should be used in forecasting have been several complaints because the guide IPSASB has not shown in detail how their selection of respondents finding this very important subject.

Period of five years for predicting and updating long-term fiscal sustainability has been approved by the majority of respondents, combatants have argued that this period would be too long, and therefore would be expected inconclusive data, suggesting a period of three years.

6 Conclusions

IPSASB is an international body whose role is to ensure uniformity of international standards to ensure transparency and comparability of financial information not in the public sector. Even though the accounting regulations currently under effect don't provide a detailed presentation of the qualitative characteristics of financial statements, we must not forget that these are, in fact, the essential features based on which we establish the utility of the accounting information (Cozma Ighian, 2009:858). IPSASB Consultative Document issued in connection with long-term sustainability of public resources has sparked reactions to issues raised, particularly from countries using accounting standards based almost entirely on IPSAS (Canada, United States, France, New Zealand, etc.). We believe that other countries have not as yet expressed views are in the process of adopting standards or adapt them to their own needs. The analysis made by us showed that most respondents agree with entering data about long-term financial sustainability in general purpose financial reporting, but although they were numerically inferior combatants brought very robust argument in support of their views. ISASB now has the task of analyzing the responses received and to decide on possible new standards adopted.

With reference to the assumptions we made, we mention that there is a generally accepted recognition of the need of designing an international reference standard on the sustainability of public resources, so that hypothesis one is validated. In terms of specific referential terms and conditions, the observations are many and complex, although the majority of responses addressed respondents generally accept capture. From this point of view we believe the need to reassess the question of accessibility IPSASB ED's content, consequently consider that hypothesis 2 was shown to be invalid. Hypothesis 3 according to which the information about the fiscal challenge is required in order to Meet the Objectives for Financial Accountability reporting is accepted by respondents, it proved to be valid.

7 Research Limits

To commensurate international implications of such an approach, the countries surveyed, IFAC member ought to be much higher. For the emerging countries (including Romania) notice a lack of interest in this topic, although important international institutions (WB, IMF) and gave their consent and support to implement such a referential. It demonstrates once again that the scope of accounting information users is a continuous diversification, while financial statements begin to be inadequate and their content.

8 Future Researches

Romania, as IFAC member country, must be permanently connected to the accounting profession's body (CECCAR) the expected evolution in the public accounting. In this context, proposals from the ED "Reporting on the long-term sustainability of public finances, the debate content and implications of such a reference standard would be extremely helpful for all participants involved in the regulation of public accounting system (the legislator), in making application of the provisions (practitioners) and in the interpretation and analysis of results (other users). Thus, we propose that future research using a questionnaire to solicit the views of representatives of these the three categories, order to finally assess Romania's position on this issue. This study represents a first step of the comprehensive research process namely the assessment of need and goal and content situation "Reporting on the long-term sustainability of public finances" in the emerging countries.

9 Reference

Cozna Ighian D. (2009). The Quality of Accounting Data – An Absolute Requirement. *Annals of Faculty of Economics*, vol. 3, Issue 1, pp. 855-859.

Easterly, W., Rodriguez, C. A., Schmidt-Hebbel, K. (1995). *Public Sector Deficits and Macroeconomics Performance*. Washington D. C.: The World Bank.

Manzke B. (2002). The long-term sustainability of public finance in Germany – an analysis based on generational accounting, 2002, *Discussion paper 10/02 Economic Research Centre of the Deutsche Bundesbank*, March 2002.

Dolenc P. (2006). Doubtful Sustainability of Public Finances in Slovenia, Consultation Paper: *Reporting on Long-Term Sustainability of Public Finances Prague Economic Papers*, no. 3, pp. 268-281.

***www.ifac.org/Guidance/EXD-Details.php?EDID=0133.

***www.ipsas.org.