Dear Chairs and Members

Re: Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) (January 2014)

The Australian Accounting Standards Board (AASB) welcomes the efforts of the IPSASB Governance Review Group (GRG) to bring focus to the issue of improving the governance and oversight arrangements of the IPSASB.

By way of background, the AASB is an independent statutory authority that sets Australian Accounting Standards applicable to Australian reporting entities (whether in the for-profit, private not-for-profit or public sectors) in the preparation of general purpose financial statements. The AASB’s approach to setting standards for Australian governments is to adopt International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), modified where necessary to deal with public sector specific issues. Typically, modifications for public sector specific issues are made after considering the IPSASB’s approach to the issues. The AASB works closely with IPSASB, strongly supporting its mission.

The AASB agrees with the assessment by the GRG, and by the IPSASB itself, that the IPSASB’s governance arrangements need to be markedly improved. They are not at the level of the IASB or of the major national standard setters.

The “Message from the Co-Chairs” in the GRG’s public consultation paper links the criticism of IPSASB’s governance and oversight arrangements with the low rate of adoption of IPSASs by national governments, citing past consultations that raised this matter. The AASB is aware that the criticism has been levelled on a number of occasions, but doubts that a lack of proper governance and oversight arrangements is more than a contributing factor to some jurisdictions’ reluctance to improve public sector financial reporting. The AASB expects that a fear of the consequences of adopting certain IPSASs, a perception that sovereignty may be eroded and a lack of capacity are among the factors that are more likely to influence non-adoption. However, the AASB is of the view that every major standard-setter should have proper governance and oversight arrangements,

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1 As part of their contribution to the work of the International Forum of Accounting Standard Setters (IFASS), AASB staff have drafted A Model for National Standard-Setters. That Model (in near final form – to be made public in due course) identifies a range of characteristics that would be expected to be found in a highly regarded standard-setter. Although written from a national standard-setter’s perspective, the GRG might find some of its content useful in its consideration of IPSASB.
irrespective of the level of adoption of its standards. Therefore, the AASB strongly supports the efforts of the GRG to engender change. It will be a welcome bonus if improved governance and oversight leads to markedly greater adoption of IPSASs.

Basis for Analysing the Options for Improvement

The consultation paper identifies three options that might be considered for improving IPSASB’s governance and oversight. Rather than respond to each ‘specific question to consider’ in Section V of the consultation paper, this submission focuses on those options and on the practical considerations cited by the GRG as potentially influencing the selection of a way forward, namely:

- “the speed with which the new governance arrangements can be put in place;
- the likely costs associated with different oversight options; and
- the availability of funding to meet those costs”

However, the AASB believes that the primary focus for establishing improved IPSASB governance and oversight arrangements should be their ability to help instil confidence that financial reporting standards result from informed and expert consideration of users’ needs by an independent standard-setting body. The AASB would strongly oppose any arrangements that interfered with good due process and the independence of the standard-setter subject to those arrangements.

Another major driver in the AASB’s thinking is that it believes standards are primarily aimed at facilitating economic decision-making and that, even though circumstances differ between the sectors of the economy (that is, between the for-profit, private not-for-profit and public sectors), fundamentally economics are not sector specific. In the light of this, the AASB works very hard to ensure a high degree of consistency in Australian financial reporting standards applicable across all sectors. The AASB has been setting standards for all sectors since 1983 and, despite not adopting IPSASs directly, aims to achieve compliance with them wherever possible. Indeed, the compliance effectively achieved would be among the highest in the world.

Nevertheless, an ongoing tension for the AASB is the possibility that IPSASs and IFRSs will differ from one another simply because financial reporting issues are considered by the IASB and the IPSASB at different times, using different due processes and different resources. At present, there are no governance or oversight arrangements that would encourage the IASB and the IPSASB to come to timely and consistent answers, despite the fact that to do so would be logical given the commonality of their fundamental raison d’etre. The AASB does not wish to see the seeds sown for future costly convergence programmes simply because the two organisations take a view of the role of financial reporting that is insufficiently broad. The AASB strongly believes that it is artificial to divide reporting issues between those seemingly relevant to (the private sector part of) the global capital markets and those seemingly only affecting the public sector (which is also part of the global capital markets). Thirty years of experience tells the AASB that there are only a few circumstances confined to any one sector and that the economic analyses needed when dealing with such circumstances are not unique.
Thus the AASB’s views about governance and oversight are driven by two key positions:

(a) there is a generic need for good governance and oversight of any accounting standard-setting; and

(b) there is a need for good governance and oversight of standard-setting to encourage an appropriate degree of integration of standard-setting effort between sectors.

Having said this, the AASB agrees with the GRG that an expedient solution is much better than continuing with an absence of adequate governance and oversight arrangements. Thus the AASB’s recommendation involves an intermediate step as a transition to its preferred model.

**Recommendation**

The AASB supports Option 1 in the consultation paper – the extension of the scope of the IFRS Foundation’s Monitoring Board and Trustee activities (IFRS governance and oversight arrangements).

The IFRS governance and oversight arrangements have followed from many years of experience with the International Accounting Standards Committee (IASC) and been intensively developed over the period since 2001. They are tuned to the setting of global financial reporting standards, have weathered the storms of the global financial crisis and, fundamentally, have the AASB’s confidence. Those on the Monitoring Board and Trustees are experienced, expert and appropriately related to an independent IASB. Their membership could be expanded to include relevant public sector experience.

As an interim step, the AASB recommends Option 2 if the judgement is made that the IFRS governance and oversight arrangements cannot be accessed in less than two to three years. The AASB sees this interim step as having the merits of being capable of relatively quick implementation and that funding seems to be available through IFAC. However, this step does not enjoy the benefits cited above for the IFRS governance and oversight arrangements and has the major problem of perceived lack of independence from the accounting bodies who are the members of IFAC. It was recognised at the formation of the IASB that the nexus between the accounting bodies and the standard-setter needed to be broken. The AASB believes public sector standard-setting is in the same position as that faced by the IASC.

Option 3 of creating another free-standing arrangement is not supported by the AASB because it foregoes all the benefits cited above for the IFRS governance and oversight arrangements, in favour of trying to parallel those benefits over time. Nor would it be quick to implement. The AASB is fearful that having the IFRS and the IPSAS standard-setting arrangements under two ongoing and separate governance and oversight models would be very likely to engender unnecessary sector specific, uncoordinated financial reporting regimes. The AASB would be strongly opposed to that.
Funding

The AASB is far from convinced that funding should be seen as a primary driver. The task of funding Options 1 and 2 is quite small compared with the funding of the establishment of the entire IFRS arrangements. If even a relatively small number of governments supported leveraging those arrangements, the cost per government would be relatively small. The AASB is more concerned about the adequacy of the general level of funding for global public sector accounting standard-setting, no matter which model is adopted; but that is a separate issue.

Concluding Comments

The AASB strongly supports the extension of the IFRS governance and oversight arrangements to embrace IPSASB (Option 1). It could accept the IFAC option (Option 2) as a temporary measure.

The AASB is aware that the Financial Reporting Council in Australia is also making a submission and has made this submission available to that Council.²

If any further information or clarification is required, please feel free to contact me.

Yours sincerely

Kevin M Stevenson
Chairman and CEO

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² The Council, a statutory body, is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. One of its key functions is the oversight of the accounting and auditing standards setting processes for the public and private sectors and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. It monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards.
28 April 2015

The Chairs and Members
The International Public Sector Accounting Standards Board
Governance Review Group

Email: IPSASB@oecd.org

Dear Review Group Chairs and Members

Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board

CPA Australia welcomes the opportunity to comment on the Consultation Paper. CPA Australia is one of the world’s largest accounting bodies representing the diverse interests of more than 150,000 members in public practice, industry, commerce, government, not-for-profits and academia in 121 countries. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

We agree with the statements made in the Consultation Paper that it is necessary that the International Public Sector Accounting Standards Board (IPSASB) is subjected to adequate governance and oversight arrangements. Our position is that the International Public Sector Accounting Standards (IPSAS) are a public good and in the long term the best way to enhance the integrity of, and confidence in, IPSAS is by having their development occur within a standard setting framework that is independent of the accounting profession.

CPA Australia believes that in the long term Option A: monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees is the best approach to enhancing the integrity of, and confidence in, IPSAS and in turn the transparency and accountability of government. However, as there are some significant hurdles to overcome before Option A could be implemented, we can accept, as an interim measure, Option B: separate monitoring and oversight boards of the IPSASB while it remains under the auspices of the IFAC.

Our responses to the specific questions are in the Appendix. If you have any questions regarding this submission please do not hesitate to contact Dr Mark Shying, CPA Australia by email at mark.shying@cpaaustralia.com.au.

Yours sincerely

Alex Malley FCPA
Chief Executive
Appendix
Responses to Specific Questions

Question 1

Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? 21 If so, please describe.

The CPA Australia publication *Promoting improved transparency, accounting and economic policy for governments: The Australian experience* (2012 p. 15) 1 states “…governments should be held to a level of integrity and transparency by its citizens at least as high as that demanded of business, as governments need to be directly accountable for their financial management of public funds.”

CPA Australia believes Option A: monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees is the best approach to enhancing the integrity of, and confidence in, IPSAS and in turn the transparency and accountability of government. We believe that having the IPSASB and the International Accounting Standards Board under the same monitoring and oversight body will help to negate the current real risk that each standard setter will develop financial reporting standards that treat comparable transactions in similar circumstances very differently.

We acknowledge that there are some significant hurdles to overcome before Option A could be implemented and that would include a change to the IFRS Foundation’s current view that it is not feasible to bring the IPSASB under its governance structure in the short-to-medium term. Nevertheless, we believe Option A should become the aspirational goal.

Therefore, as a stepping stone to the adoption of Option A, we can accept Option B: separate monitoring and oversight boards of the IPSASB while it remains under the auspices of the IFAC. We believe it is the only option of the three suggested options that is able to be quickly implemented and easily funded as it uses existing IFAC resources.

We do not support Option C: Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies as the Consultation Paper provides little insight into its consequences. Further, we are concerned that if it was adopted it may give rise to a model that may not enhance the integrity of, and confidence in, IPSAS.

Question 2

Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

The CPA Australia response to Question 1 above states our acceptance of Option B as a stepping stone to the adoption of Option A. In offering our comments to Question 2, CPA Australia does so in the context of implementing Option B.

We believe that in order to ensure the integrity of, and confidence in, standard setting and its outputs it is necessary that the IPSASB is subjected to a governance structure that is engineered to meet the needs of public sector financial reporting standard-setting process while remaining responsive to the public interest. Our preference is for a simple structure and not a behemoth that serves to constrain the standard-setting process. One body that combines the monitoring and oversight bodies for the IPSASB may be the simplest structure and we encourage the Review Group to consider it.

Question 3

Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

CPA Australia’s responses to Questions 1 and 2 above give prominence to ensuring the integrity of, and confidence in the processes and outputs. We believe that in constructing the membership of the governance body (be it one body as described in our response to Question 2 above or separate IPSASB monitoring and oversight bodies) it is important to understand how a body composed of the identified institutions and stakeholders would contribute to the factors of integrity and confidence. We are not aware of absent institutions and stakeholders whose inclusion would positively contribute to these factors and should therefore be represented.

Question 4

Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Regarding the proposed composition of the governance body see our response to Question 3 above.

Question 5

Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

No, we have not identified any other relevant aspects.
Dear Ladies and Gentlemen

The Australian Financial Reporting Council (FRC) is pleased to make a submission to the IPSASB public consultation process.

The Financial Reporting Council is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The FRC monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards. It is a statutory body under Part 12 of the Australian Securities and Investments Commission (ASIC) Act 2001. Members of the FRC include key stakeholders with both private and public sector expertise and a member of New Zealand’s External Reporting Board. The Public Sector Committee of the FRC includes Members from State, Territory and the Australian Governments, as well as the Australian Accounting Standard Board (AASB). The AASB also has members especially selected for their public sector expertise.
Australia is committed to high standards in accounting and reporting and has established an international reputation in public sector accounting and reporting in particular.\(^1\) We have supported efforts to further improve public sector accounting and reporting and to promote the broader adoption, at the international level, of transparent and consistent standards and practices. It is the FRC’s view that sustained attention by international organisations is a key to enhancing public sector accounting and reporting.

Australia is also committed to sector neutrality in the development of accounting standards, while recognising the distinct issues that arise for the public sector. We apply International Financial Reporting Standard (IFRS) equivalents with limited modification for not-for-profit entities including public sector entities. In some cases, these modifications are based on International Public Sector Accounting Standard (IPSAS) requirements.

Without having formally adopted IPSASs, Australia has deliberately achieved a high degree of compliance with those standards. The standard-setting authorities in Australia, and a number of key stakeholders, remain highly involved with the development of IPSASs; a number of these organisations have actively promoted the use of IPSASs in a variety of countries, particularly in our region.

While it is clear that governments around the world face varying incentives in relation to their own financial reporting, the FRC supports the key observation made in the public consultation paper (p ii), that “concerns about the governance and oversight of the IPSASB are among the reasons cited by national authorities for not adopting IPSASs.” To the extent that governance issues may themselves be a barrier to the further adoption of IPSASs, the FRC is therefore strongly supportive of the efforts of the International Public Sector Accounting Standards Board Governance Review Group in conducting the current consultations.

**Background**

The FRC notes that a previous round of public consultation on IPSASB governance was undertaken in 2012 through the International Federation of Accountants (IFAC). In that process, comments were sought about whether IPSASB monitoring and governance should be vested in the Monitoring Group, The Public Interest Oversight Board, or a new body within the auspices of IFAC. Within the limits of the options proposed, the FRC provided the following view:

“\(^{\text{In respect of IPSASB oversight the FRC accepts the PIOB model in the shorter term for practical reasons. However, it is of the view that in the longer term a separate body be charged with IPSASB oversight, on the basis that this approach would maintain consistency and build on the framework and processes of other leading accounting standard setters, provide an oversight body each of whose members fully understands public sector issues, and therefore achieve a greater credibility with stakeholders. The FRC generally favours a model for the oversight body which is compatible with a goal of convergence between the IASB\(^\text{2}\) and IPSASB.}}\)"
The FRC’s comments on the current consultation paper are consistent with the underlying view we expressed in that earlier process. They are also consistent with the views of the AASB, in its submission to this review.

Question 1: FRC view on the governance model

The FRC agrees there are benefits to be derived from strengthening the monitoring and oversight of the IPSASB.

The FRC remains of the view that a model for the oversight and monitoring bodies which is compatible with a goal of convergence between the IASB and IPSASB is the most appropriate objective, and consequently supports Option 1 in the 2014 public consultation paper. The FRC agrees with the advantages of this approach set out on page 16 of the public consultation paper, namely that is the best means to support long-term convergence; access to the IFRS Foundation resources and skills; and, to manage costs.

The FRC notes that there are some practical challenges to implementing Option 1 in the shorter term. While every effort should be taken to minimise these obstacles, the FRC would support Option 2 as a transitional option, subject to continuing efforts to achieve the goals set out in Option 1.

We are of the view that the detailed implementation of a shorter-term approach should be structured in such a way that reduces the risk inherent in Option 2 and maximises the potential for eventually adopting Option 1. Examples of strategies relevant to this goal could include:

- cross membership arrangements, for example where a member of the IPSASB oversight and monitoring body was nominated to join the IFRS Foundation as a Trustee, or whereby the IFRS Foundation nominated one of their Trustees to join the IPSASB oversight and monitoring body;
- periodic joint or coincident meetings of IFRS Trustees and the IPSASB oversight and monitoring body to promote sharing of views and experience;
- moves to co-locate or even share the secretariat functions for the IFRS Trustees and the IPSASB oversight and monitoring body.

The FRC is providing these suggestions simply as illustrations of ways to encourage mutual cooperation between the IFRS Foundation and the IPSASB oversight and monitoring body. Any steps of this type would facilitate progress towards a single oversight and monitoring process across IASB and IPSASB.

The FRC also notes that the suggestions above would be consistent with the Memorandum of Understanding (MOU) signed by IFAC and IASB in November 2011 to enhance cooperation in developing private and public sector accounting standards.

The FRC does not favour the third option for monitoring and oversight presented – re-establishing IPSASB outside of IFAC with its own monitoring and oversight bodies. As noted in the consultation paper this would be more time consuming and more costly. Further, the FRC is of the view that while this may remove the perceived conflict of interest between IPSASB and IFAC, unless carefully constructed, it would not prevent the risk of a conflict of interest emerging in the future.
Questions 2-5

The FRC broadly agrees with the proposed remit for the IPSASB monitoring and oversight bodies included in the public consultation paper. We also broadly agree with the composition of the oversight and monitoring body, noting that on the grounds of cost we are in favour of a single body if governance Option 2 is implemented (that is, a separate body under the auspices of IFAC) pending consideration of Option 1 in future.

If you would like further information on this matter from the FRC, please contact the FRC Secretary, frcsecretary@treasury.gov.au or +61 2 6263 3144.

Yours faithfully

Lynn Wood
Chairman
Financial Reporting Council
The Chairs and Members
The IPSASB Governance Review Group

By email: IPSASB@oecd.org

Dear Chairs and Members

Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) (January 2014)

The Institute of Chartered Accountants Australia (Institute) welcomes the opportunity to provide a submission to the Chairs and Members of The IPSASB Governance Review Group regarding the proposals to improve the governance and oversight arrangements of the IPSASB. Appendix B includes more information about the Institute.

Key points
- We support the extension of the IFRS governance and oversight arrangements to include the IPSASB (Option 1), as a longer term goal.
- However, as an interim measure we could accept the establishment of separate governance and oversight arrangements while it remains under the auspices of IFAC (Option 2).
- We do not support the re-establishment of the IPSASB outside of IFAC with its own monitoring and oversight bodies (Option 3) as we believe this would be too costly in comparison with the other options and securing funding for these arrangements would be too difficult.

More detail on our key points is provided in Appendix A. We have focused on explaining our rationale for the options chosen above, rather than answer the detailed questions. We also refer you to our thought leadership publication, issued in June 2013, entitled It's time....for global, high quality public sector financial reporting. This document provides more detail on our rationale and basis for selecting Option 1 above.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact me via email at: rob.ward@charteredaccountants.com.au; or telephone (02) 9290 5623 or Kerry Hicks at kerry.hicks@charteredaccountants.com.au or (02) 9290 5703.

Yours sincerely,

Rob Ward
Head of Leadership & Advocacy
Appendix A

Question 1:

Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination of sequenced implementation (eg short-term/long-term approaches) of the above options? If so, please describe.

We agree with the need to strengthen the monitoring and oversight of the IPSASB. We consider that the IPSASB governance arrangements are not at the level of the IASB or at the level of major national standard setters around the world. We expressed this view in our previous submission in 2012 to the International Federation of Accountants (IFAC) on this matter.

Given the globalisation of financial reporting for the private sector and the current inadequate reporting and accountability by many governments around the world, we consider that the increased adoption of IPSAS may help remedy the situation. However, take-up of IPSASs around the world, while increasing, has to date been limited. Whilst recent funding increases to the IPSASB have improved the currency and comprehensiveness of its standards, it is not to the pace of change being made under International Financial Reporting Standards (IFRSs).

Therefore, we would like to see an acceleration of the momentum of the IPSASB and do not consider this can occur without improved governance arrangements of the IPSASB. Even once governance arrangements have been improved, there will still be considerable efforts needed to improve IPSAS adoption around the world. This is particularly the case in Europe with the European Commission concluding that the development of specific European Public Sector Accounting Standards would be preferable than following the existing IPSAS.

Discussion of the options

We support the extension of the IFRS governance and oversight arrangements to include the IPSASB (Option 1), as a longer term goal.

This is based on our view, outlined in our thought leadership publication, issued in June 2013, entitled *It’s time....for global, high quality public sector financial reporting*.

In our publication we express the view that the most efficient and effective course of action to pursue is to build on an existing global standard setting structure – i.e. the IPSASB or the IFRS Foundation (Option 2 and Option 1). Changes that would need to be made to instigate one of these options could be made much more quickly than establishing a completely new arrangement (Option 3). We do think that funding of the governance bodies could be a challenge. However, the IFRS Foundation has demonstrated that a viable funding model can be established. Convincing countries to adopt the standards will prove to be challenging irrespective of the model. Using the experience of the IASB, the global public sector standard setter will have to rely on the quality of its standards and influence of external forces to induce countries to adopt its standards.

We believe the IFRS Foundation course of action (Option 1) would be a more efficient strategy and would be more likely to be successful in achieving our long term vision for high quality, transaction
neutral global financial reporting standards covering both private and public sectors, for the following reasons:

- The basic architecture is already in place
- Requirements and safeguard for independence are well in place and have proven to be effective.
- Well developed oversight processes and procedures already exist and have developed to give the organisation some political legitimacy.
- The IFRS Foundation has in place a sustainable funding model that could be readily adopted to include public sector constituents.
- Having both the IASB and IPSASB under the same governance model will encourage ongoing co-operation, and considerations to work together on topics. This would more than likely encourage cross fertilisation between the sectors which may result in transaction neutral outcomes when appropriate. Whilst they have a Memorandum of Understanding in place currently, operating in two separate organisations has resulted in the boards increasingly going their own separate ways.

Option 1 would require some restructuring of the IFRS Foundation and the IPSASB. We believe the following changes would need some consideration:

- The IFRS Foundation’s Constitution would need to be amended to include the development of accounting standards for public sector entities, and the missions of the IASB and IPSASB may need to be modified.
- The IFRS Foundation Monitoring Board and the IFRS Foundation Trustees would need to include members from the public sector; ideally public and private sectors members should be equal in number.
- The IPSASB would need to be re-populated with a smaller number of full time members.
- The IFRS Foundation’s funding model would need to be enlarged to include contributions from public sector constituents.

To achieve option 1 could involve some time, particularly as we are aware the IFRS Foundation trustees are not all supportive of this option to expand their remit. Further, there would be a number of operational and technical challenges that would need some consideration.

Therefore if it is determined that Option 1 cannot be achieved in the short term (say two to three years), as an interim measure we could accept the establishment of separate governance and oversight arrangements while it remains under the auspices of IFAC (Option 2). If Option 2 is adopted, we consider that it could be adopted in a way that would maximise its future transition to Option 1, such as:

- A position on the trustees or monitoring board of the IPSASB given to a current IFRS Foundation Trustee or monitoring board member
- A joint meeting of the two organisations annually to encourage discussion of common issues, and sharing of views and experience.

We do not support the re-establishment of the IPSASB outside of IFAC with its own monitoring and oversight bodies (Option 3) as we believe this would be too costly in comparison with the other options and securing funding for these arrangements would be too difficult. We also consider that the world cannot afford to ‘reinvent the wheel’, and the time taken to construct such an arrangement in an independent manner, would be its main disadvantage.
Appendix B

About the Institute

The Institute represents accounting and business professionals in Australia and around the globe. Members strive to uphold financial integrity through a commitment to ethics and acting in the public interest.

We focus on educating candidates through the Chartered Accountants Program and engage in advocacy and thought leadership underpinned by our members’ knowledge and experience. We influence a range of policy areas impacting the Australian economy and domestic and international capital markets.

A watershed member vote in 2013 set the course for the Institute to amalgamate with the New Zealand Institute of Chartered Accountants(subject to obtaining formal government approvals and effecting amendments to constituent documents), with the vision of becoming the trusted leaders in business and finance.

The proposed new institute – Chartered Accountants Australia and New Zealand – is expected to have more than 90,000 members in total with 17,000-plus candidates, giving us greater scale and influence on the world stage.

We are on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong GAA and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

charteredaccountants.com.au
Contact: Peter Gibson
Phone: (02) 6215 3775
Our Ref: RMS12/04790

The International Public Sector Accounting Standards Board Governance Review Group
IPSASB@oecd.org

The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Organisation for Economic Cooperation and Development on the paper The Future Governance of the International Public Sector Accounting Standards Board (IPSASB).

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

Australian governments do not directly apply International Public Sector Accounting Standards (IPSAS), but they are considered by the national standard setter, the Australian Accounting Standard Board (AASB), in developing accounting standards for the not-for-profit sector and HoTARAC regularly comments on IPSASB proposals.

Question 1:

HoTARAC agrees with the paper on the advantages of strengthening the governance of the IPSASB and favours the option of monitoring and oversight of the IPSASB by the International Financial Reporting Standards (IFRS) Foundation’s Monitoring Board and Trustees. This aligns with the long-term view of integrating IPSAS with IFRS and has the potential to create synergies from IFRS oversight, particularly given the seminal role of IFRS in IPSAS development. Additionally, this option is likely to be the lowest cost option as structures for monitoring and oversight are already in place and so only require the addition of members with public sector skills.
However, HoTARAC acknowledges that IFRS may be unwilling to undertake the monitoring and oversight role, at least in the short term, in light of the current focus on developing standards for for-profit corporate entities and its current budget constraints\(^1\).

HoTARAC believes that Option (b), to establish a separate monitoring and oversight board for the IPSASB while it remains under the auspices of the International Federation of Accountants (IFAC), could be acceptable in the short term, providing that it is a transitional solution towards the long-term goal of Option (a). However, HoTARAC notes that this option, if used for an extended period, would place further pressures on the limited funding available to IFAC\(^2\).

HoTARAC does not support Option (c) as this would require larger, more secure and broader sources of funding than those currently available to IPSAS. If the Review Group considers this option worthy of further consideration, HoTARAC strongly suggests this funding issue be addressed, particularly as the IPSASB currently has a Budget of only $2.3 million, more than half of which is funded by IFAC. The comparative budget of IFRS suggests that substantially more funding would be required for a reasonably robust oversight role.

**Question 2 and 3:**

HoTARAC agrees with the proposed remit for the IPSASB monitoring and oversight body in section IV, paragraph A and also agrees with the proposed composition of the IPSASB monitoring body in section IV, paragraph B.

**Question 4:**

HoTARAC partially agrees with the proposed composition of the IPSASB oversight body in section IV, paragraph B. HoTARAC agrees it is essential that some members of the oversight body have public sector experience, but it should also be acknowledged that those with relevant technical expertise and private sector experience can also contribute to the oversight function, particularly under option (a) of Question 1. For example, in Australia, the Australian Accounting Standards Board issues sector neutral standards with a Board and oversight body (Financial Reporting Council) comprised of members drawn from both public and private sectors.

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Question 5:

HoTARAC recommends further discussion of the financial feasibility of the options presented in light of HoTARAC's response to Question 1 as the sustainability of any appropriate governance and oversight structure for the ISPASB would require a reliable and continuous funding model.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance +61 2 6215 3551.

Yours sincerely

David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
28 April 2014
Sehr geehrte Damen und Herren!

Im Rahmen der Konsultation zum Thema „The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)*“ wird von Wien nachfolgende Stellungnahme abgegeben:

Die International Public Sector Accounting Standards (IPSAS) sind ein internationaler Rechnungslegungsstandard für den öffentlichen Sektor welche an die Erfordernisse von erwerbswirtschaftlichen Unternehmen und somit an die Doppik angelehnt sind. Im Vordergrund von öffentlichen Verwaltungen steht allerdings nicht die Abbildung des Vermögens bzw. die Darstellung über dessen Zusammensetzung und damit einhergehenden Gewinnerzielungsabsichten, sondern vielmehr das Angebot an allgemein zugänglichen Leistungen und deren Nutzen für die Bürgerinnen und Bürger.

Die Doppik ist darüber hinaus kein Garant für qualitativ hochwertige Finanzdaten, wie dies oft fälschlicherweise pauschal vermittelt wird, da im Rahmen der IPSAS zahlreiche Wahlrechte (zB
für Bewertungen von Vermögensgegenständen) bestehen und somit nur eine bedingte Vergleichbarkeit besteht. Ferner verbessert die doppelte Buchführung in keiner Weise die Finanzsituation von öffentlichen Gebietskörperschaften.

Mit freundlichen Grüßen

Der Finanzdirektor:

[Unterschrift]

Mag. Griebler, MBA

Nachrichtlich per E-Mail an:
Magistratsabteilung 27
(zu MA 27 - 88656-2014)
The International Public Sector Accounting Standards Board Governance Review Group

Chairs: the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the World Bank.

Members: the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Organization of Supreme Audit Institutions (INTOSAI).

Responses should be submitted to IPSASB@oecd.org.

The deadline for submissions is April 30, 2014.

19 April, 2014

The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

I’m Denise Juvenal this is pleased to have the opportunity to comment on this consultation of International Public Sector Accounting Standards Board (IPSASB) Governance Review Group this is my individual commentary for International Public Sector Accounting Standards Board Governance Review Group, I agree with this proposal.

V. SPECIFIC QUESTIONS TO CONSIDER

To move this discussion forward, the IPSASB Governance Review Group is seeking public input on the future directions for the governance and oversight of the IPSASB and IPSASs. All stakeholders, including ministries of finance, audit offices, parliaments, sub-national governments, national accounting standards boards, national accounting institutes, academia, and other concerned entities and individuals, are invited to comment.

In particular, the Review Group would be grateful for respondents’ views on the following questions:
Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

I understand that in this proposal in the page 14, the Oversight and Governance of the IPSASB in relation specific areas with: Accountability, Independence, Competence, Credibility, so these areas need to be integrate with MOU’s and others important agreements that IFAC elaborated with others key international regulators.

I agree with this proposal, but I think that needs to clarify the importance about in relation strengthen the monitoring and oversight of the IPSASB that can include A/ Absence of public interest oversight and B/ Current governance arrangements and recent reforms in this proposal, because these points can be impact some decisions about governance in some key international regulators.

In this case, I understand that the governance for IFRS Foundation includes some observations that impact the process of activity of staff and trustees of IFRS Foundation with responsibility of (key) stakeholders, for example in the page 1 of Governance Review\(^1\) describes that: “… Stakeholders share the Monitoring Board’s view that the independence of the IASB is critical to the credibility of IFRSs. The governance structure should provide for a standard-setting environment that is independent of vested interests.”

In relation Strategy\(^2\) the IFRS Foundation modified after Second discussion about Constitution Review describes in the page 6 that: “…Scope of standards and IFRS activities A4 In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (ie publicly traded entities, other publicly accountable entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and other purposes at a later date.”

Although, I think that the IASB/IFRS Foundation has the principal definitions that need to do for governance and strategy. In relation this point and comparing with IPSASB I describe that in the Introduction of the 2013 Handbook of International Public Sector Accounting Pronouncements\(^3\) “… The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions …”.

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For this, I think that the feedback of discussions about IFAC Reforms that includes PIOB Consultation\(^4\) describes in the page 10 that: “...The MG and PIOB, in appropriate coordination with IFAC and the SSBs, intend to work together to implement these improvements and undertake these initiatives, along with monitoring of the effects of implementation of the recommendations from the MG’s 2010 review of the effectiveness of the IFAC Reforms, as we continue our shared mission of advancing audit quality.”

I consider that IPSASB/IFAC can contribute for IASB and key stakeholders or key international regulators for public sector. I understand that separate monitoring and oversight boards for the IPSASB can imply cost and structure for this case. However, I understand that this discussion for The IPSASB’s Strategy Consultation for 2015 forward and Consultation on Work Program 2015-2019\(^5\) can clarify these points in the page “Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by: (a) developing high-quality financial reporting standards; (b) developing other publications for the public sector; and (c) raising awareness of the IPSASs and the benefits of their adoption.”

In this reason, in 2012 the Terms of Reference revised that included in the page 1 “The IPSASB develops and issues, in the public interest and under its own authority, high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports. In this regard: • The term “public sector” refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises); and • General purpose financial reports refers to financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs. The IFAC Board has determined that designation of the IPSASB as the responsible body under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission”.

The discussion about public interest, on the other hand, elaborate for IFAC for private and public sector\(^6\) describes in the page 2 that “IFAC supports a whole system approach to public sector financial management, and recognizes the critical importance of the foundations of the system — stakeholder consultation, the demand for services and projects, and governance — which, along with the key process elements, aims to

deliver public, community, and individual value as part of the overall objective to deliver sustainable social benefit.”

I think that the Analysis of the IFRS jurisdictional profiles\(^7\) can contribute for IPSASB/IFAC in relation the jurisdictional profiles for public sector, for example, in this moment has discussion about EPSAS\(^8\) for member states elaborate for EUROSTAT/European Commission, so with this aspect about international standards for regions, the key regulators can contribute with development and application of international standards for public sector.

So, I believe that integrate Monitoring and oversight of the IPSASB is complex considering the aspects cited. I suggest for the board, if agrees, that modify this method can imply important decisions in the key stakeholders, however, the IASB and IFAC to Enhance Cooperation in Developing Private and Public Sector Accounting Standards - MOU\(^9\) elaborated in 2011 with IASB/IFRS Foundation and IFAC/IPSASB can reduce divergences for this point.

### a. Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees?

Yes. I understand that for the Monitoring and oversight of the IPSASB by the IFRS Foundation’s this process already occur since Enhance Cooperation in Developing Private and Public Sector Accounting Standards - MOU\(^10\) elaborated in 2011 with IASB/IFRS Foundation and IFAC/IPSASB. I think that need integration about the number III of this proposal includes some points as: A/ Absence of public interest oversight and B/ Current governance arrangements and recent reforms with focus about accountability, independence, competence and credibility, because for this moment is very important clarify the activities of each regulator for do not have questions about this process and principally the public interest.

### b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

No. I have doubt with this point, because separate monitoring and oversight boards for the IPSASB, can be impact in some structure and costs for IFAC because these differences imply in transparency of the process for public sector in the key

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\(^7\) [http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx](http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx)


regulators, for do not have problems with conflicts of interest. I suggest, for the board consults the key regulators for do not have problems or questions in this aspect.

c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
No. I have doubt in this point because the IPSASB outside of IFAC can have high costs and I do not know if IPSASB has financial structure for develop and reestablishing outside IFAC. I think that this subject needs to integrate interest of key stakeholders and key international regulators, for do not have problems with conflicts of interest. I suggest, for the board consults the key regulators for do not have problems or questions in this aspect.

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options?\textsuperscript{21} If so, please describe.
No. I think that another approach, including some combination or sequenced implementation can imply cost and structure for public interest in relation the key stakeholders and conflict of interest for the stakeholders. I suggest, for the board consults the key regulators for do not have problems or questions in this aspect.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Yes, I agree this aspect has relation with IFAC/IASB, is important observe conflict of interest\textsuperscript{11}. I think that proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A, that includes in the page 18 “In the context described in section III above, the remit of such monitoring and oversight bodies would be to: (i) review the current terms of reference of the IPSASB that define the standard setting process and approve any modifications to the document; (ii) oversee the nomination and appointment of the members/chairs of the different bodies involved in the standard setting process; and (iii) ensure appropriate consultation and transparency in the development and approval of the

\textsuperscript{11} http://www.ifac.org/news-events/2013-03/iesba-strengthens-key-sections-code-ethics-professional-accountants
strategy, work program, and budget of the different bodies attend term of IPSASB. I suggest, for the board consults the key regulators for do not have problems or questions in this aspect.

Are there other issues that should be addressed? No. There are not other issues that should be addressed.

Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Yes, I think that the composition of the IPSASB monitoring body section IV, paragraph B needs to be integrate with key stakeholders and key international regulators, for do not have problems with conflicts of interest\(^\text{12}\) and I think need to observe the Terms of Membership in the International Public Sector Accounting Standards Board in the Terms of Reference\(^\text{13}\).

Are there any other institutions or stakeholders who should be represented? No. I think that there are not any other institutions or stakeholder who should be represented.

Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? Yes, I think that the proposed composition of the IPSASB oversight body in section IV, paragraph B needs to observe conflicts of interest\(^\text{14}\) and the Terms of Membership in the International Public Sector Accounting Standards Board in the Terms of Reference\(^\text{15}\).

In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented? No, I think

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that the public sector background, there are not other competencies, interests or stakeholders who should represented.

**Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.**

I believe that there are not any other aspects related to the governance of the IPSASB which I believe the Review Group should consider before presenting its final recommendations.

I think that in this case, for this moment, the cost involved for the process about International Public Sector Accounting Standards Board is very expensive. The public sector is very complex in relation the structure that depends of fund for elaborate something and has effect in it process because, includes for example: expertise professional, training, system, knowledge, structure, high quality and transparency.

In this reason, I understand that development new governance can impact the cost in the countries that already elaborate something in relation the international public standards and principally for the key international regulators.

However, the research about public sector has improving in each year and this process has been very important since time. I believe that the proposal of public sector international accounting standards is integrated more countries and together with the key regulators for to improve that the government can have great structure and high quality of standards for accounting.

This subject is very difficult in practice because the structure of public sector is very complex, considering that already has internal laws that impact directly for attend this point. I suggest for the board, if agrees, that the key stakeholders and key regulators need to work together for reduce the divergence in relation the international standards for the public sector. So, I have certain that the results will have high quality, effectiveness and transparency for this process.

Thank you for opportunity for comments this proposal; if you have questions do not hesitate contact to me, rio1042370@terra.com.br.

Yours,

Denise Silva Ferreira Juvenal
rio1042370@terra.com.br
5521993493961
April 22, 2014

The Chairs
IPSASB Governance Review Group

By email: IPSASB@oecd.org

To the IPSASB Governance Review Group,

On behalf of the International Public Sector Accounting Standards Board (IPSASB), I am pleased to provide you with our response to your public consultation paper on the Future Governance of the IPSASB. We appreciate the opportunity to provide our views. In addition, we are grateful for the participation of Review Group members at the IPSASB meeting on March 11, 2014 in Toronto Canada, specifically, Jón R. Blöndal, who gave a presentation on the consultation paper and answered questions. We found the discussions valuable and appreciated the opportunity to exchange ideas and views in person.

I would like to take this opportunity to express the IPSASB’s gratitude to the Review Group for addressing this important issue with the goal of bringing it to closure. As you aware, the IPSASB has been working towards having oversight structures implemented for a decade. We believe that the IPSASB’s credibility will be enhanced by structures and processes that provide public interest oversight of the IPSASB.

The Chairs of the Review Group – the World Bank, International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) - are observers to the IPSASB, and we have benefited greatly from their participation not only at our meetings but in liaising with us on an ongoing basis on many matters. We value the close working relationship we have with the Chairs and we look forward to this continuing.

We look forward to the Review Group’s final report and recommendations and we appreciate your commitment to facilitating the implementation of the recommendations.

Once again thank you for the opportunity to respond.

Sincerely,

Andreas Bergmann
Chair, International Public Sector Accounting Standards Board
RESPONSE TO PUBLIC CONSULTATION PAPER
ON THE FUTURE GOVERNANCE OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Introduction

The ongoing impact of the sovereign debt crisis emphasizes the seriousness of the results of poor financial management and financial reporting in the public sector. This increased focus on public sector financial management has created increasing demands for high-quality standards and for guidance on how to adopt and implement such standards. The IPSASB is the global body dedicated to developing accounting standards for public sector entities (IPSASs).

The IPSASB’s mission is:

To serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.

High-quality, robust and effective accrual-based financial reporting systems, such as those based on International Public Sector Accounting Standards (IPSASs), are integral to enhancing accountability and transparency in government financial reporting. In the wake of the sovereign debt crisis the IPSASB is facing increasing demands for its standards and for guidance on the adoption and implementation of those standards.

The Need for Public Interest Oversight

Public interest oversight of the IPSASB is needed to sustain the IPSASB’s growing credibility as the international accounting standard setter for the public sector. It is important that the IPSASB has public interest oversight in order that those adopting the standards are assured that the IPSASB is acting in the public interest and that its standards result from widespread and carefully considered comment from interested stakeholders around the world. Creating an oversight regime may also provide assurance that the Board has the long-term capability and capacity to independently and rigorously address public sector financial reporting issues.

In developing standards the outcome is to establish and maintain high-quality standards that serve the public interest. On that basis, the institutional arrangements need to be properly responsive to the public interest at a global level to support the fundamental tenet that the standards developed are of the highest quality.

We agree with the need for public interest oversight. We would like to point out that virtually all aspects of the IPSASB’s operations are the same as those for the Independent Standard-Setting Boards (SSB’s) of IFAC, other than the specific oversight structures and processes. In addition, IPSASB is unique in that it has a large group of observers, including the Chairs of the Review Group. There are ten observer organizations that send delegates to IPSASB meetings. This allows direct engagement in IPSASB debates which is beneficial as the standards develop. In effect this has created a de facto oversight of the IPSASB’s operations, albeit without formal accountability mechanisms.
We highlight this as a way to reiterate our view that the need for oversight relates not to existing deficiencies in operations but rather the desire to have the proper processes in place to ensure that it is clear that the public interest is currently being served, and to provide assurance that the public interest will continue to be served in the future.

**Options for Establishing Public Interest Oversight of the IPSASB**

The Review Group identifies three options for improving public interest oversight of the IPSASB. At its March 2014 meeting the IPSASB discussed the consultation paper at length including the three options.

The IPSASB is unanimous in its support for the second option laid out in the paper – establishing separate oversight for the IPSASB under the auspices of IFAC. The IPSASB’s view is that this alternative meets all of the characteristics for strong public interest oversight of the IPSASB – accountability, independence, competence and credibility. This alternative will provide an enduring sustainable basis for meeting the public interest oversight needs of the IPSASB. It is also a practical and timely solution – important given the critical need for oversight.

We note that the consultation paper raises possible concerns about the perceived conflict of interest associated with IFAC’s financial support to the IPSASB. The factual experience of the IPSASB has been that there has never been any interference by IFAC with respect to the IPSASB’s independence or any interactions that have been negative in any way. We have found that in many respects IFAC’s involvement is in fact a strength - because the participation of the accountancy profession adds an element of independence from the principal users of our standards, governments and international organizations. This is unlike other IFAC standard-setting boards which are setting standards for IFAC member body members themselves.

As far as option 1 – extending the scope of the IFRS Foundation’s Monitoring Board and Trustees activities – the IPSASB is of the view that this option is not feasible in the short or medium-term. Even to consider this option as a long-term goal there are considerable issues that would need to be addressed, many of these well beyond the challenges raised in the consultation paper. This was underscored by recent discussions at the IFRS Advisory Council in their discussions of option 1.

There are significant questions as to whether the IFRS Foundation would be willing to take on IPSASB oversight and commit the appropriate resources. It is therefore difficult to envision a situation where option 1 would be an appropriate solution to ensure that the public interest is served.

It is also unclear if the Review Group intended that only the oversight of the IPSASB would be integrated into the IFRS Foundation’s oversight framework or if they intended that the full standard-setting operations would be somehow merged with the IFRS Foundation. This would need to be clarified since it potentially affects all of the structures and processes of both boards, including whether the IFRS Foundation will take responsibility for the funding of the IPSASB’s activities and not just funding of the oversight activities. The complications of bridging the differences between a fully compensated board like the IASB and a volunteer board like the IPSASB have not been addressed in the consultation paper but should not be underplayed.

In the IPSASB’s view, option 1 does not address the issues adequately and, creates additional significant issues, with no clear solutions evident. One of the criticisms IPSASB is exposed to, for instance in the Eurostat Report on the suitability of IPSASs for EU Member States is that its suite of standards is too close to the standards issued by the IASB. Bringing IPSASB under the oversight of the IFRS Trustees would certainly reinforce this criticism.
As far as option 3 – Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies – the IPSASB did not think that this option as set out in the consultation paper had adequate detail to be able to debate as a realistic option. In fact the challenges set out in the paper mean that this option as described, like option 1, does not address the issues but rather raises significantly more issues.

On that basis the IPSASB did not think that either option 1 or option 3 as described in the paper would truly meet the characteristics for strong public interest oversight of the IPSASB nor could either be implemented reasonably quickly.

*It is for these reasons that, after debating the options laid out, the IPSASB unanimously supports option 2 since it meets the characteristics of strong public interest oversight that will serve the public interest in the long-term; and it can be realistically achieved in the short-term.*

**Structure and Mandate of the Oversight Body**

The objective of oversight is to increase the confidence of governments and other stakeholders that standard setting by the IPSASB responds to the public interest. The goal is to ensure accountability, transparency, and responsiveness to stakeholder (including users) needs throughout the entire standard-setting process.

Oversight that is independent and comprehensive during the development of international accounting standards for the public sector provides a safeguard to ensure that the competent and well-balanced standard-setting board is complying with rigorous and transparent due process requirements, while effectively responding to public interest needs.

In considering whether the public interest is being served it is necessary to assess:

- Whether the due processes are appropriate;
- Whether the right people are developing the standards; and
- Whether the processes are being implemented properly.

In this context, the IPSASB discussed its views on what a proposed structure for monitoring and oversight might be, including the idea raised in the discussion of option 2 in the consultation paper of a single monitoring and oversight body.

*The IPSASB is of the view that the monitoring and oversight function could be merged and carried out by a single body.*

It would be important to consider the design and remit of this proposed body to ensure that it will meet the characteristics outlined in the consultation paper of accountability, independence, competence and credibility.

We also highlight the importance of considering carefully the membership of the oversight body. Members of the oversight body would provide oversight of due process only; responsibility for the technical content of the standards would remain with the IPSASB. As such, members of the oversight body would not need to be technical specialists. However, members of the oversight body should be enthusiastic about the need for public interest oversight of the IPSASB and have strong support for fiscal transparency.

In terms of the role of this proposed single oversight body, the IPSASB suggests the following:

- Review and approve the terms of reference and scope for the IPSASB and any changes to them;
- Evaluate the IPSASB’s due process procedures and recommend any appropriate changes;
- Review the work of IFAC’s Nominating Committee in relation to IPSASB and approve the IFAC Board’s nominations to the IPSASB;
- Approve the appointment of member organizations to an IPSASB Consultative Advisory Group (CAG) – see discussion below;
- Oversee the work of the IPSASB, to be satisfied that the public interest is fully recognized in all its activities; and
- Approve or comment on the IPSASB’s strategic and work programs with the right to recommend items that should be added to the work program if it believes that the IPSASB has not responded to public advice on its priorities.

The oversight body’s responsibility to consider whether the due process has been effectively applied and with proper regard for the public interest would rely on three inputs: (a) the results of direct and comprehensive monitoring; (b) reports from and dialogue with the IPSASB and CAG chairs; and (c) independent reviews by its staff.

The IPSASB also believes there is a role for the oversight body in encouraging better financial reporting by governments as a strategic global issue.

The sovereign debt crisis illustrates the stark implications (both nationally and internationally) of government debt failures and the inability of global institutions to accurately monitor and effectively manage the financial position of governments. In the past, the assumption was made that governments are risk-free. However, the ongoing crisis forces us to conclude that governments are not risk-free and the failure of fiscal management in the public sector can have an economic impact that far exceeds the possible impact of losses incurred by corporate failures.

As a body of regulatory and international organizations with responsibility to protect and advance the public interest the oversight body could have a strong strategic role in encouraging the adoption of IPSASs by governments worldwide. The IPSASB proposes therefore that the oversight body call for and support the institutional reforms that are needed in the public sector, including the adoption of accrual accounting by governments worldwide.

This would improve the quality of financial information reported by public entities, which is critical for investors, taxpayers, and the general public to understand the full impact of decisions made by governments with respect to their financial performance, financial position, and cash flows.
Consultative Advisory Group (CAG)

Currently, the IPSASB does not have a CAG comparable to other standard-setting boards. While a Consultative Group (CG) was established a number of years ago, its composition and operating procedures bear little resemblance to the other CAGs and it has been inactive for an extended period of time. In establishing a model for oversight the IPSASB is of the view that it is also necessary to establish a CAG for the IPSASB.

In considering how this structure might work in the IPSASB context, it is important to establish what the mandate of the CAG should be and, based on this, to make recommendations about its size and composition.

The oversight body does not provide feedback on the technical content of the IPSASB’s work. In contrast, the CAG has a direct role in providing that feedback. The objective of the CAG would be to provide:

- Advise on the IPSASB’s agenda and project timetable (work program), including project priorities;
- Technical advice on projects; and
- Advice on other matters of relevance to the activities of the IPSASB.

Since one of the IPSASB’s strategic focuses is promoting adoption and implementation of IPSASs, it is important that this be included as a secondary objective of the CAG. CAG members would be expected to meet their own out-of-pocket costs to attend meetings.

Given overall concerns about costs, the IPSASB proposes that a more streamlined version of a CAG be established. We suggest that the CAG meet twice annually in direct conjunction with IPSASB meetings, for example, on the fifth day. This would minimize extra travel for the IPSASB Chair to attend CAG meetings and also minimize travel for the CAG Chair to attend IPSASB meetings.

CAG membership could include existing observers, some of who might also stay on as observers to the IPSASB. If the Chair of the CAG is appointed from the observer group this would minimize travel for the CAG Chair since they would be attending the IPSASB meeting as an observer at any rate.

In addition to the existing observers, it is proposed that a number of the CAG memberships be offered to ministries of finance and supreme audit institutions around the world. This would be a direct way for governments to participate in the IPSASB’s processes and project priorities. Selection factors would include IPSAS adopters and planned adopters, large and small governments, and different levels of government. Potential CAG members from other interested stakeholder groups, for example oversight bodies of national public sector accounting standard setters, where they exist, would also need to be considered.
Other Issues

The IPSASB would also like to highlight some other issues that the Review Group should consider in making its recommendations.

Full-Time Chair

All members of the IPSASB are volunteers, including the Chair. The IPSASB benefits from the fact that although the current Chair is employed by a university in Switzerland, the Government of Switzerland provides funding to that university to allow the Chair to work on a virtually full-time basis for the IPSASB. The IPSASB does have a small travel budget for outreach by the Chair and senior staff. The previous Chair also worked virtually full-time for the IPSASB supported by the professional firm he is affiliated with.

In the IPSASB’s view this situation is not sustainable. *The level of uptake of the IPSASs and the enhanced demands on the IPSASB as the international standard setter for the public sector support the IPSASB transitioning to having a full-time compensated Chair.*

The IPSASB asks that the Review Group consider this issue, including how this could be funded. The timing of this is critical. The term of the current Chair ends December 31, 2015. It will be necessary to allow adequate time for a thorough search process for a new full-time compensated Chair effective January 1, 2016. This means that the process needs to commence as early as possible in 2015 to allow appropriate transition.

Funding

All of the proposed options for public interest oversight of the IPSASB have funding implications. The IPSASB encourages the Review Group to consider these in order to ensure that sustainable funding for public interest oversight arrangements are secured. Funding for oversight should not come from the IPSASB’s current, already stretched, budget.

Items requiring Clarification

The IPSASB would like to highlight two matters which we believe merit some clarification.

i) Categorization of Members by Professional Background

In the profile of IPSASB members by professional background set out on page 2, we note that one of the IPSASB’s public members, a former national auditor general who was nominated as a public member by INTOSAI, is characterized as “Other (including National Standard Setters)”. When we requested clarification we were told it was on the basis that she is retired and no longer employed as an auditor general. Because of her nomination by INTOSAI, the IPSASB believes she should be classified as “Ministry of Finance or Supreme Audit Institution”. If this was the case, the percentage of members in this category would rise to 50% and the percentage of members classified as “Other” would fall to 22%. We think this is a more accurate depiction of the 2013 membership of the IPSASB.
We note that for 2014 the percentages for each category are as follows:

<table>
<thead>
<tr>
<th>Professional Background</th>
<th>2014</th>
<th>2013 per Review Group</th>
<th>2013 per IPSASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance or Supreme Audit Institution</td>
<td>53%</td>
<td>44%</td>
<td>50%</td>
</tr>
<tr>
<td>Other (including National Standard Setters)</td>
<td>21%</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Academia</td>
<td>16%</td>
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**ii) Public Sector Projects**

In the last paragraph of page 3 it is noted that “some issues of relevance for the public sector have not so far been addressed, including the accounting treatment of social benefits and other non-exchange expenses.”

The IPSASB approved a project on social benefits in June 2013 and work on this has commenced. The IPSASB has previously carried out significant work on social benefits and issued a number of publications. The IPSASB then deferred further work on social benefits until adequate progression of the project to develop a public sector conceptual framework, since the definition of a liability is fundamental to accounting for social benefits. Many of the responses to the IPSASB’s 2012 public consultation on its work program were vocal about the desire for the IPSASB to commence this project. The IPSASB discussed an issues paper in March 2014 and the project is a priority in the current work program.

During the 2012 public consultation on the work program respondents provided feedback on project priorities. A project on non-exchange expenses was highlighted as a potential future project but was not prioritized by respondents. On that basis, the IPSASB has not commenced work on such a project. The IPSASB recently issued a public consultation on its Strategy for 2015 forward and it’s Work Program for 2015-2019. A project on non-exchange expenses is included in the list of potential future projects that respondents are asked to comment on.
Conclusion

In summary:

- The IPSASB unanimously supports the second option laid out in the paper – establishing separate oversight for the IPSASB under the auspices of IFAC since it meets all of the characteristics for strong public interest oversight of the IPSASB.

- The IPSASB is of the view that the monitoring and oversight function could be merged and carried out by a single body. It is important to consider the design and remit of this proposed body to ensure that it will meet the characteristics outlined in the consultation paper of accountability, independence, competence and credibility.

- The IPSASB supports the creation of a Consultative Advisory Group, although with some efficiency gains as compared to the other IFAC CAGs.

- The IPSASB supports the appointment of a full-time compensated Chair effective January 1, 2016.

Once again, thank you for your engagement on this critical issue. We look forward to the Review Group’s recommendations and their implementation.
The Chairs  
IPSASB Governance Review Group  

To the IPSASB Governance Review Group:

SUBJECT: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

Thank you for the opportunity to comment on the consultation paper regarding the future governance of the International Public Sector Accounting Standards Board (IPSASB) issued in January 2014.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS). However, given that PSAB is reviewing its conceptual framework and will refer to the work of IPSASB in its deliberations, we have a vested interest in the consultation paper. As well, IPSAS are an important secondary source of GAAP. Our responses to the Specific Questions to Consider listed are included in the attached Appendix.
We thank you again for providing the opportunity to comment on this consultation paper. If you have any further questions related to these comments, please do not hesitate to contact either Ms. Annie Boyer at annie.boyer@tbs-sct.gc.ca (613-957-9671) or myself at michel.vaillant@tbs-sct.gc.ca (613-952-0886).

Yours sincerely,

Michel Vaillant
Acting Executive Director,
Government Accounting Policy and Reporting

c.c.: James Ralston, Comptroller General of Canada

Tom Scrimger, Assistant Comptroller General, Financial Management & Analysis Sector
Appendix

The future governance of the International Public Sector Accounting Standards Board (IPSASB)

Question 1
Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:
   a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
   b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
   c) Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
   d) Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

We agree that there is a need to strengthen the monitoring and oversight of the IPSASB. From the information provided in the consultation paper, however, it appears that the oversight and monitoring of the IPSASB is an issue that needs to be addressed in the near term, rather than waiting for the review of the IFRS Foundation’s constitution to be held in two years’ time. Therefore, we believe that option (b), separate monitoring and oversight boards for the IPSASB while it remains under IFAC, should be selected, possibly as a short-term solution with a view towards option (a), monitoring and oversight by the IFRS Foundation’s Monitoring Board and Trustees, in the long-term.

Although option (b) does not take advantage of the fact that the IFRS Foundation has already established public interest oversight and monitoring, the IPSASB would remain under the IFAC umbrella, which would have some advantages with respect to resources. In the long-term, particularly if the long-term strategy is convergence of IPSAS with IFRS, the new oversight and monitoring group could look into the possibility of being a sub-committee of the IFRS Foundation in the future.

Question 2
Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

We agree with the proposed remit in section IV paragraph A.
Question 3
Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

We agree with the proposed composition of the monitoring body. As well, representatives of the IFRS Foundation Monitoring Board could be included in the monitoring body, particularly if there is a long-term strategy to converge with IFRS.

Question 4
Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

We agree with the proposed composition of the oversight body.
International Public Sector Accounting Standards Board  
529 5th Avenue, 6th Floor, New York, NY 10017, USA  

March 14, 2014  

Re: Public Consultation: the Future Governance of the International Public Sector Accounting Standards Board (IPSASB)  

Dear Sir or Madam,  

The Chinese Institute of Certified Public Accountants (CICPA) welcomes the opportunity to comment on Public Consultation: the Future Governance of the International Public Sector Accounting Standards Board (IPSASB). We commend the Review Group’s effort to enhance the governance and oversight of the IPSASB.  

In general, considering the origins of IPSASB, the achievements it has accomplished, and the future direction of public sector accounting standard setting activities, we believe that the function of developing international public sector accounting standards should remain in the IPSASB, which will continue to operate as an independent board under the auspices of IFAC.  

The appendix to this letter provides our responses to the questions presented in the public consultation.  

We would be pleased to discuss in further detail our comments and any other matters with respect to this public consultation.  

Yours sincerely,  

Yugui Chen  
Secretary General  
CICPA
Appendix

Responses to Questions in the Public Consultation: Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:
   a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
   b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
   c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
   d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

We agree that it is necessary to strengthen the monitoring and oversight of the IPSASB to better serve the public interest.

We opt for option B. In the short term, such a body, or bodies could be established reasonably quickly without requiring a review of the IFRS Foundation’s constitution and alternative sources of funding. In the long term, this proposed governance arrangement of the IPSASB would ensure that IPSASB establish and maintain high-quality standards since members of such a body, or bodies could be selected fully on the basis of their background and expertise in public sector accounting issues.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Generally, we agree the proposed remit for the IPSASB monitoring and oversight body(ies). The body(ies) should review terms of reference of the IPSASB, oversee the process for nominating and appointment of board members, the development of the work program and due process for the development of standards, define the role and functions of the various stakeholders of the public sector standard setting process, etc.

Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

Generally, we agree with the proposed composition of the IPSASB monitoring body. For the public sector, a monitoring body should involve representatives of official sector bodies, i.e., international organizations, governmental institutions, etc.

Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Yes, the oversight body should include individuals with appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public
sector. Besides, we consider professional ethics to be a critical character these individuals should possess.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

No comment.
Dear Sir, Dear Madam,

Re: FEE comments on IPSASB’s Review Group consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB)

FEE welcomes the public consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB) and avails itself of this opportunity to make the following points:

Eurostat’s consultation on the suitability of IPSASs has identified governance and, especially, the lack of oversight as being areas of significant concern for Governments. Consequently, resolving these issues could promote a more widespread adoption of generally accepted public sector standards. This is seen as a vital step in improving international public sector accounting in the aftermath of the global financial crisis, which revealed serious deficiencies in the financial reporting practices of many governments.

Thus, the public consultation on the reform of the IPSASB governance by the Review Group is timely and should remain high on the agenda. This is particularly important as the current debate on introducing and implementing European Public Sector Accounting Standards (EPSAS) has given rise to an intensive public debate in Europe.

FEE has duly considered the different options laid out by the IPSASB Review Group. Each option presents a certain number of advantages and challenges.

**Question 1:** Do you agree that there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:
- a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
- b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
- c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
- d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.
Option C (re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies) would remove any perceived conflict of interest associated with IFAC’s financial support to the IPSASB and create a truly independent standard setter for the public sector. This option may be considered as the ideal solution.

However, due to the need for a contemporary reform of the IPSASB governance model, option C might not be the practical solution. Indeed, not only does this option pose significant questions in terms of financing and staffing but establishing a new structure is likely to be highly time-consuming. Consequently, this option is probably not suitable for the resolution of the IPSASB governance issue in a reasonable timeframe.

When considering option A (extending the scope of the IFRS Foundation’s Monitoring Board and Trustees activities), FEE has noted that in the most recent Trustee’s strategy review in February 2012, the IFRS Foundation considered the possibility of expanding its remit to include the IPSASB. As a result of their discussions, both internally and with stakeholders, the IFRS Foundation agreed not to take this forward in the short term, as a majority of respondents preferred that the IASB continue in the short-term to focus on private sector standard setting. However, the Trustees did believe that they should consider the expansion of the organisation’s mandate at some point in the future.

This option would have a number of practical advantages and challenges, it could most likely add credibility of acting in the public interest and could better ensure the independence of the standard-setter. Therefore, option A should not be excluded as potential future solution. Nevertheless, such a solution would (i) need to be developed together with the IFRS Foundation and (ii) most likely require a review of the IFRS Foundation’s constitution which at this time is not expected for another two years.

Option B (establishing monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC) would seem to be the most straightforward and practical solution for the time being. This option could ensure public interest credibility to the standard-setting board, provide the necessary expertise to the oversight board and require a limited investment of resources and time for establishing it. Therefore, it could be a step in the right direction and help move standard setting for the public sector forward.

On the other hand, this option would not address concerns over accountability, independence, and perceived conflicts of interest that are raised in relation to the current governance and oversight system of IFAC. These would need to be dealt with to make this option viable.

If option B were to be considered as the way forward for the IPSASB governance reform, further clarification on the funding mechanism would be required in order to enhance the perception of independence. The Review Group is encouraged to investigate further on this matter.

Furthermore, the Review Group could analyse in further detail whether establishing the monitoring body and oversight body as one single body (single tier approach) could ensure simultaneously oversight and monitoring functions. This lighter architecture could provide greater efficiency and contribute to reducing the financial burden of having two separate bodies. However, it needs to be considered if one single body can cover efficiently both respective functions (monitoring and oversight).
Overall, all these options have their pros and cons. A more innovative approach might be required. Some ideas on what this might look like are highlighted below under question 5.

**Question 2**: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

It is to be considered whether the members of the oversight body would appoint members of the IPSASB, or to what extent they would participate in their nomination.

**Question 3**: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

FEE generally agrees with the proposed composition of the IPSASB monitoring body.

However, further clarification would be needed regarding the balance of the various interests within the monitoring body between primary and secondary resource providers, as well as between the national monitoring bodies and international standard-setting institutions. Further clarification is necessary as to how the various interests would be weighted in the composition of the monitoring body.

**Question 4**: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

FEE believes it is paramount that individuals in the oversight body hold the right set of skills and competences in public sector accounting. In this respect, inclusive and qualitative stakeholder participation is necessary.

**Question 5**: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

FEE believes that the different governance reform proposals suggested are not as innovative as they could be. Therefore, we encourage the Review Group to investigate further potential options. One of them could be the development of a hybrid solution between option A and B. Considering that the monitoring body and the oversight body do not have the same objectives, they do not necessarily need to be located under the same structure.

Therefore, it might be worth investigating a hybrid model of expanding the IFRS Foundation’s monitoring board with a public sector focus and creating a new IPSASB oversight body (a public sector version of the PIOB) within the remit of IFAC.
The monitoring body has to ensure that the standard setter works in the public interest, i.e. the interests of the primary users of the financial information. For that purpose, its members need not necessarily possess specific public sector expertise or technical knowledge. The IFRS Foundation’s monitoring board has well established competence, resources, procedures and credibility for ensuring the public interest of accounting and financial reporting standard setting activities for the private sector, most of which would be readily applicable to the setting of public sector accounting standards. Additionally, the cost of the IPSASB monitoring would only be incremental to those already being incurred.

The oversight body has to ensure the due process in standard setting, which requires an appropriate technical competence in the accounting and financial reporting area, as well as recognised experience in the public sector. The oversight body is likely to include individuals selected in their capacities as accounting standard setters, preparers of financial reporting, public practice professionals, and academics. Establishing a new oversight body for the IPSASB, while it remains under the auspices of IFAC (a public sector version of the PIOB), would have the following advantages:

The members of such a body could be selected fully on the basis of their background and expertise in public sector accounting issues;

Such a body could be established reasonably quickly without requiring significant constitutional and organisational changes to the IFRS Foundation and to IFAC’s constitution and organisation.

Therefore, it might be worth investigating whether such a solution would be feasible, taking into account both legal and funding issues.

Regarding legal matters, it would, for example, need to be investigated whether the expanded IFRS Foundation’s monitoring board could be responsible for nominating the members of a public sector version of IFAC’s PIOB. The Memorandum of Understanding which the IASB and IFAC have signed to note the common and mutual interests of the IASB and IPSASB and to set up some communication and co-operating processes could serve as a basis for that purpose, in particular as it refers to potential options for enhancing the standard setters’ contribution to serving the public interest.

Regarding funding issues, it would need to be carefully investigated whether the current funding of the activities of the IPSASB, half of which are met by IFAC members, could be maintained.

Furthermore, the cost-effectiveness and the concrete applicability of such a structure would need to be carefully investigated by the IPSASB Review Group.

For further information on this matter, please contact Ms. Petra Weymüller, FEE Senior Manager, on +32 2 285 40 75 or via e-mail at petra.weymuller@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive
IPSAB Governance Review Group

PUBLIC CONSULTATION ON THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB) GOVERNANCE REVIEW

Response submitted by:
Ms Nina Alatalo, Deputy Head of Executive Office
National Audit Office of Finland, P.O. Box 1119, FI-00101 Helsinki, FINLAND
nina.alatalo@vtv.fi

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB?

The NAO of Finland emphasizes the need to strengthen the monitoring and oversight of the IPSASB Governance as well as the independent role of the monitoring and oversight bodies. In the NAO of Finland perspective, public sector stakeholders and public sector auditing should be taken into account in the monitoring and oversight as well as the relevance and importance of autonomy. It is also essential to secure and guarantee sufficient resources, also in the financial perspective, regardless of which governance option is ultimately chosen. NAO of Finland also sees that avoidance of conflicts of interest should be taken into account in the IPSASB Governance.

The NAO of Finland agrees that there is in general a need to strengthen the monitoring and oversight of the IPSASB. In the perspective of NAOF the criteria for the strengthening should be (in order of importance): availability of funding, the likely costs associated with different oversight options and the speed of the new arrangements. At the same time it should be ensured that those who attend to the monitoring and oversight duties have sufficient expertise and interest especially in the questions concerning the public sector.

The NAO of Finland supports the option D. At this point it is essential to separate monitoring and oversight boards for the IPSASB, while it still remains under the auspices of the IFAC. However, after resolving the questions concerning a guaranteed and sufficient funding, preparing towards re-establishing IPSASB outside of IFAC with its own monitoring and oversight bodies could be initiated.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight bod(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Overall, the NAO of Finland considers the remit of the monitoring and oversight bodies as suggested in Public Consultation (i-iii) appropriate. However, the responsibilities and the power of decision between the monitoring bodies and IPSASB would need further clarification. For example, can the monitoring bodies suggest modifications to the terms of reference (also referring to answer 5) or does it just approve changes
suggested by IPSASB? NAOF sees that it is essential that the stakeholders have a possibility to comment on the terms of reference.

The NAO of Finland emphasizes that it is important for the oversight bodies to define the role and functions of various stakeholders of the public sector standard setting process. A Consultative Advisory Group would be very beneficial for the work of the oversight bodies, since it would ensure the technical advice to the IPSASB in the standard making process and the feedback from the users of the standards would go directly to the standard preparation work.

Questions 3 & 4: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented? Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

The NAO wishes to emphasize the position of Supreme Audit Institutions and public sector audit profession in the standard setting boards as well as in the governance arrangements. In the NAOF point of view, the representation of the stakeholders should be still clarified, since it is not clear, are the balances between different stakeholders representatives in the monitoring body exactly the same or would there be some interest groups that have more representatives than others. (Also referring to answer 5.)

In general, the NAO of Finland underlines the openness and transparency of the procedures and processes. In the NAOF perspective the nomination procedures of the representatives should be emphasized, because it remains unclear how the members are nominated to the monitoring and oversight bodies. NAOF considers useful if interested organisations and institutions can be involved as observers in the monitoring body if they choose.

In the oversight body public sector background is important but also individual’s independent position is relevant. This means that representatives should be nominated mostly from independent organisations or those monitoring national standard setting.

Question 5: Are there any other aspects related to the governance if the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

The NAO of Finland acknowledges the previous work of IPSASB to ensure better governance and oversight for IPSAS standard setting and welcomes the steps IPSAB Governance Review Group has taken to further endorse a formal public interest oversight mechanism.

In the NAOF point of view, the current IPSASB and the Public Interest Oversight Board have a need for improved governance and representation of the public sector and Supreme Audit Institutions (SAI) to provide the sufficient legitimacy to set the accounting standards. NAOF also encourages the IFAC and IPSAB to reflect upon measures to allow direct participation of the SAIs to their activities. NAOF considers that it is beneficial that INTOSAI has membership and representation in the IPSASB Governance Review Group. Additionally more attention should be given to the representation of SAIs, because SAIs have an important role and SAIs are experts on public sector accountability. Promotion of good financial reporting and accounting standards is a core part of SAI functions. The SAI’s can provide specific expertise on the produc-
tion, use and quality of public sector accounting information interpreted in a systematic framework, not only isolated and specific purpose views but a genuine concern and care for true and fair view.

Moreover, NAOF wishes to emphasize the clarification to certain points in order to form more transparent and open image of the IPSASB Governance. These points are among others nomination procedures, establishing the bodies, composition of the board, selection process and the terms of reference. NAOF sees that it is essential that the stakeholders have a possibility to comment on the terms of reference.

NAOF considers that the public sector has specific needs which differ from the needs of the users of general purpose financial statements in the private sector. The user needs should be reflected from the perspectives of (1) lenders and credit rating agencies, (2) parliamentary decision-making, (3) budgeting and fiscal policy making, (4) government financial management and general management, (5) production of EMU public finance statistics and (6) the citizens as the supreme and ultimate stakeholders and users of as open as possible public accounting data and financial reporting.

The NAO of Finland takes the position that the European Union would benefit from a harmonised but public sector specific and cost-efficient accounting standards framework. European Commission has begun the preliminary work for developing EPSAS standards for the EU Member States. The Commission report COM (2013) 14final noted that current IPSAS standards are not directly applicable in EU Member States. In the future IPSASB work the developing of new EPSAS standards for the public sector should be acknowledged.
Paris, 17 April 2014

International Monetary Fund (IMF)
Organization for Economic Co-operation and Development (OCDE)
World Bank
IPSASB Review Group
ipsash@oecd.org

Re: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) – public consultation

As Presidents of the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l’Ordre des Experts Comptables (CSOEC) we are glad to provide to the IPSASB Review Group the comments of the French Profession on the Public consultation issued in January 2014 on the Future Governance of the IPSASB (hereafter the Consultation)

We agree with the underlying assumption of the consultation that the IPSASB governance and oversight needs to be strengthened. Any standard setting activity needs appropriate governance and oversight as a prerequisite for its standards to be recognized and ultimately adopted or endorsed by those for whom they are set.

It would not be understandable to the world that the accounting standard setter (IASB) for the private sector and the auditing standard setter (IAASB) have an appropriate governance and oversight while the IPSASB does not.

We also agree with the desirable characteristics of accountability, independence, competence and credibility that any standard setting model should meet, as mentioned on page 9 of the Consultation.

We share the view of the Review Group that in weighing the advantages and disadvantages of the three governance reform options the following practical considerations should definitely be taken into account:

- the speed with which the new governance arrangements can be put in place;
- the likely costs associated with different oversight options; and
- the availability of funding to meet those costs.
Having weighed, on the one hand the ability to meet the desirable characteristics of a proper standard setting model and on the other the constraints of the practical consideration above, we believe that option 2 which foresees establishing separate monitoring and oversight bodies for the IPSASB while remaining under the auspices of IFAC is the most appropriate of the proposed option.

At the moment IFAC is funding the operation of the IPSASB for more than half of it and we believe that as long as it remains so, IFAC is the appropriate umbrella body under which to place the IPSASB.

At the moment option 2 foresees the establishment of separate monitoring and oversight bodies for the IPSASB and envisages that, depending on the available resources, the monitoring and oversight functions could, initially, be merged and carried out by a single monitoring and oversight body.

We support that pragmatic solution. The number of layers involved in the standard setting process must make sense from a cost/benefit point of view.

Three layers seem to be enough representing:
- "Those that do" (the standard setting board)
- "Those that advice" (the advisory group)
- "Those that oversee" (PIOB and MG)

As such, it is sometimes difficult to understand why a fourth layer of "those that monitor those that oversee" is needed. It is especially the case when the same organization may be represented in the third layer (PIOB) and the fourth layer (MG) with representative of a more senior level at the third layer than at the fourth.

The entire architecture of the standard setting must remain sustainable from a cost/benefit point of view.

From that point of view, we note that the Consultation did not envisage, as an option, the addition in the existing Nominating Committee, PIOB and MG of members and organizations representative of the Public Sector. Such a solution could have avoided the creation of a separate PIOB and MG for the IPSASB and may have permitted to reach the same objective with less cost. We consider that such option should be explored further.

We hope that you will find our comments helpful. Do not hesitate to contact us if you have any questions.

Best regards

Yves Nicolas
President of CNCC

Joseph Zorgniotti
President of the CSOEC
Paris, April 2, 2014

International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OCDE)
World Bank

Re: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) – public consultation

The CNOCP welcomes the opportunity to comment on the public consultation The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) issued by the IPSASB Governance Review Group.

The CNOCP strongly believes that the governance of the international public sector accounting standard-setter is a fundamental issue of the utmost importance. As such, that issue should be subject to careful as well as extensive thinking to ensure a sound governance, key to governments’ adhering to an international high quality set of public sector accounting standards meant to enhance harmonisation, comparability and transparency in fiscal reporting.

Broader thinking should be primarily based on an accurate description of the concepts that underlie the public sector at large. A key feature is the complexity of the public sector, first because of its strong connections to public policies, second because of the numerous worldwide various situations that bear huge financial effects, namely at governments’ levels.

Because of that complexity, the broad picture of the public sector is fundamentally different than that of the private sector, even though most interested parties would agree that some operations and transactions share similarities. From an accounting angle, the CNOCP is fully convinced that those similarities and those only should lead to the use of highly converging accounting principles.

For the reasons stated above, the CNOCP is of the view that sound governance for the international public sector accounting standard-setter should result from carefully processed objectives that take roots in priority in the identification and description of the public sector features.
Broadly, of the three proposed options, the CNOCP would favour the option of a full fresh start for the governance of the international standard-setter board, i.e. option 3. Ideally, one or more international organisations in charge of public management would oversee the IPSASB’s activities, following the example of the production of the System of National Accounts under the auspices of the United Nations and four other international organisations. Were it not for the resource issues a project that would implement that option would have to face, the CNOCP strongly believes that it is by far the best solution.

Thus dropping option 3 for impracticability reasons, the CNOCP would therefore go for option 2 with separate monitoring and oversight boards for the IPSASB still under the auspices of IFAC. Even then, the CNOCP strongly believes that the separate monitoring and oversight boards should be created anew. It is the opinion of the CNOCP that extending the existing Monitoring Group or PIOB composition with a view to merely increase public sector representation would definitely not be the way forward.

In short, the CNOCP sees the monitoring board as playing a more public policy role than the oversight body whose role should be more deeply rooted in technical matters. Both boards should be liaising periodically.

Responses to the specific questions in section V of the public consultation are presented in more detail in the appendix to this letter.

On behalf of the CNOCP that met on April the 2nd, 2014
The General Secretary

Marie-Pierre Calmel
APPENDIX

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c) Reestabishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d) Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

The CNOCP is of the view that it is fundamental to revise, and not merely ‘strengthen’, the monitoring and oversight of the IPSASB.

Because the public sector is fundamentally different from the private sector, it is sound to question the legitimacy and the relevance of the actual organisation of the oversight of the IPSASB that lies under the auspices of the IFAC, a professional organisation that primarily deals with entities within the private sector.

Therefore, the CNOCP thinks that the best way forward is a proposal to establish the IPSASB outside of IFAC with its own monitoring and oversight bodies created anew. In such an organisation, public sector professionals would be widely represented.

However, the CNOCP has a clear understanding of how difficult it would be to re-establish the resources the IFAC benefits from.

As far as option 1 is concerned, the CNOCP believes that extending the scope of the IFRS Foundation’s Monitoring Board and Trustees activities would have significant implications for the Foundation. In addition, it would probably not solve the issue of the involvement of public sector stakeholders any better than option 2.

Thus dropping options 1 and 3 for impracticability reasons, at least in the short term, the CNOCP would therefore go for option 2 with separate monitoring and oversight boards for the IPSASB still under the auspices of IFAC. Even then, the CNOCP strongly believes that the separate monitoring and oversight boards should be created anew. It is the opinion of the CNOCP that extending the existing Monitoring Group or PIOB composition with a view to merely increase public sector representation would definitely not be the way forward.
Under those circumstances and for the reasons stated above, the CNOCP would like to stress that it is critical that the independent oversight bodies of the IPSASB should be essentially composed of professionals that are highly competent in public sector matters and that have at heart the general public interest worldwide.

**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Section IV, paragraph A describes the remit of the monitoring and oversight bodies for the IPSASB. While they agree with the elements identified in the proposal, the CNOCP is concerned that the description does not clearly articulate the role of the monitoring body and that of the oversight body. Therefore, the CNOCP would appreciate that the Review Group takes the analysis further down the path of providing a clear role for each body, beyond the proposed composition of each body provided in paragraph B.

Getting into details, the CNOCP sees the monitoring board as playing a more public policy role though liaising with the oversight body, whose role should be more deeply rooted in matters of governance, such as the appointment of board members, approving the work programme and broad directions on technical issues, as well as monitoring the due process.

As such, the CNOCP could envisage that the remit of the monitoring body be primarily based on:

- Ensuring that the public interest is appropriately served; and
- Establishing and reviewing with relevant frequency governance arrangements.

The oversight body would then take on the standard-setting strategy both in process and from a technical angle, among which approving the work programme and broad directions on technical issues.

However, when it comes to overseeing the implementation of the standards, the CNOCP strongly believes that such activity should be left to the jurisdictions that adopt IPSASs.

With respect to the remit of the oversight bodies, another issue of concern to the CNOCP is that of the scope of the financial information covered by the international public sector standard-setter. More specifically, the CNOCP believes that financial reporting at large beyond financial statements information should not fall within the remit of the IPSASB. That position was expressed in responses to exposure drafts to the two first Recommended Practice Guidelines published in 2013 by the IPSASB on long-term sustainability of an entity’s finances and on financial statement discussion and analysis.
The main reason for limiting the activities of the IPSASB to financial statements is that financial reporting at large within the public sector touches on technical and political matters that may go far beyond accounting techniques and for which the IPSASB has insufficient competence.

Because the CNOCP believes that the remit of the IPSASB’s activities should be limited as discussed above, they are convinced that the existence of an oversight body is critical to ensure that the set limits are respected, e.g. in reviewing the IPSASB’s strategy and work programme.

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

The CNOCP commend paragraph B that clearly underlines one of the specificities of the public sector financial information that is the particular nature of their users.

However, the CNOCP is of the view that though a critical aspect, reflecting on the composition of the bodies is insufficient. More specifically, for transparency purposes, membership criteria and a process for appointments should be proposed as well as the main conditions of service, namely the service term.

With respect to primary resource providers and users, the CNOCP agrees that organisations representing the interest of Parliaments should come first in the composition of the monitoring body; however seats for organisations representing citizens seem less realistic, because one may question the legitimacy of such organisations. Rather, the CNOCP would support that seats should be dedicated to States’ representatives, as this would ensure liaison with politics. In addition, involvement of supreme audit institutions would be more useful at the oversight body technical level, though observer positions would be welcome within the monitoring board.

With regards to secondary resource providers and users, the CNOCP is of the view that securities and other financial sector regulators should be represented through their international representative bodies only, so as to preserve a sense of public interest.

In addition, the CNOCP would like to raise a concern with respect to the fact that the international organisations in charge of public management (e.g. the IMF, the OECD, the United Nations, etc.) may choose to only have an observer role; rather, it is essential that those international organisations should be taking full responsibility at monitoring level to ensure cohesiveness with a view to a long-range involvement.
**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

The CNOCP agrees that individuals that would compose the oversight body should be highly competent in both financial reporting and public sector matters. However, they believe that providing a description of current functions and positions of those individuals might help in figuring out the composition of the oversight body.

As such, the CNOCP believes that high level officials competent in public sector accounting and financial management would be a match as they would be able to liaise with both the monitoring board on more political issues as well as with the IPSAS board on more technical issues.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

In connection to the above comment (see question 3) on the necessary involvement of international organisations in charge of public management, the CNOCP believes that a relevant illustration is the work performed to produce the System of National Accounts (SNA). The project was carried out under the auspices of the United Nations, the European Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the World Bank Group.

The SNA is the international statistical set of standards for national accounts that provides a comprehensive, consistent and flexible set of macroeconomic accounts for policymaking. It is worth noting that cooperation between the respective five organisations cited above is a long standing one as the first set of standards was issued in 1993. Also, the SNA is of large use across the world, the five international organisations involved bearing full legitimacy to establish and release the standards.
April 29, 2014

Re: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) – public consultation

The Court of Accounts welcomes the opportunity to comment on the public consultation The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) issued by the IPSASB Governance Review Group.

The Court has always insisted, including in its role as INTOSAI representative within the Governance Review Group, on the importance of strengthening the legitimacy and the governance mechanisms of the international public sector accounting standard-setter (Re. its 2011 reply to the IFAC Draft Consultation Paper)

In this answer, the Court expresses its own point of view and not the INTOSAI one (which, being an organization with more than 190 SAI members, has not developed a common position on this issue).

The Court considers that the complexities and specificities of the public sector should be taken into consideration when examining any governance mechanisms. As such, because of the connections to public policies, the implications on public finances and the impact on the State’s perception by all stakeholders, international standards applying to the public sector must benefit from a specific approach.

Because of that complexity, the broad picture of the public sector is fundamentally different than that of the private sector. As for operations similar to the private sector, we see no rationale for departing from convergence with private sector accounting standards.

Broadly, of the three proposed options, the Court would have favoured the option of a full fresh start for the governance of the international standard-setter board, i.e. option 3. Ideally, one or more international organisations in charge of public management would oversee the IPSASB’s activities, following the example of the production of the System of National Accounts under the auspices of the United Nations and four other international organisations.

Being aware of the resource issues that such a project might face, the Court would like to know more about the potential financial impact of such an option – information needed to be able to decide in a more final way, taking into account all possibilities (see below in annex).
If a consensus were established to drop option 3 for impracticability (even though this is not obvious at this stage), the Cour des comptes, for efficiency and effectiveness grounds, is not totally convinced as regards the need for distinguishing two separate monitoring and oversight boards for the IPSASB still under the auspices of IFAC. In any way, extending the existing Monitoring Group or PIOB composition with a view to merely increasing public sector representation would definitely not be the way forward. The new monitoring/oversight board should in our view be completely renewed to better reflect the public sector’s interest.

Responses to the specific questions in section V of the public consultation are presented in more detail in the appendix to this letter.
Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c) Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d) Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

The Court is of the view that, in terms of legitimacy and credibility, establishing IPSASB as an independent body outside of IFAC would be the best option. This is why it would strongly encourage the realization of a preliminary and transparent study on option 3. The Cour des comptes would like to draw to attention that, as regards financial aspects, the IFAC does not entirely fund the IPSASB: the governments also finance the IPSASB. Prior to 2012, when the IPSASB Chairman salary was not paid by IFAC, it appeared, from figures provided by IFAC to IPSASB Members, that IFAC was financing « only » 50% of the IPSASB, the remaining 50% being funded from UN or governmental contributions, not to mention the in-kind contributions, by far the most important ones if one takes into account the expenditure related to the salary of the IPSASB members who are civil servants. To facilitate a final decision, the Cour des comptes is of the opinion that a total transparency regarding financial and in-kind funding of the current IPSASB is needed.

However, if this option were to be dropped for practical and financial constraints, the Court would favour option 2, with a monitoring/oversight board aiming at including, with new criterias to be defined, professionals that are highly competent in public sector matters and that have at heart the general public interest worldwide. The selection process of these professionals should be totally transparent and reflect a geographical balance.
**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

The Court considers that the role of the monitoring body and that of the oversight body should be better and clearly articulated. The Court sees the monitoring board as playing a more public policy role (ensuring that the public interest is appropriately served; establishing and reviewing with relevant frequency governance arrangements) through liaising with the oversight body, whose role should be more deeply rooted in matters of governance, such as the appointment of board members, approving the work programme and broad directions on technical issues, as well as monitoring the due process. However, the possibility of setting up one unique body, thus strengthening the expertise and limiting the costs of the new governance process, should not be excluded.

The Cour des comptes would like to draw the attention on the lack of reliability of the figures relating to countries which have adopted IPSASs. The Cour suggests that the planned oversight body be in charge of appreciating the figures provided by IFAC.

With respect to the remit of the oversight bodies, another issue of concern to the Court is that of the scope of the financial information covered by the international public sector standard-setter. More specifically, the Court believes that financial reporting at large beyond financial statements information should not fall within the remit of the IPSASB. The main reason for limiting the activities of the IPSASB to financial statements is that financial reporting at large within the public sector touches on technical and political matters that may go far beyond accounting techniques and for which the IPSASB has insufficient competence.

Because the Court believes that the remit of the IPSASB’s activities should be limited as discussed above, they are convinced that the existence of an oversight body is critical to ensure that the set limits are respected, e.g. in reviewing the IPSASB’s strategy and work programme.

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

The Court is of the view that, for transparency and efficiency purposes, membership criteria and a process for appointments should be proposed as well as the main conditions of service, namely the service term.
With respect to primary resource providers and users, the Court agrees that organisations representing the interest of Parliaments should come first in the composition of the monitoring body and that representatives of the supreme audit institutions should be involved as well; however seats for organisations representing citizens seem less realistic, on the one hand because the selection process of such organisations may be complex and, on the other hand, because most of the supreme audit institutions do include in their remit the (constitutional, in the French case) task of informing the citizens and would as such be in a position to represent them.

With regards to secondary resource providers and users, the Court is of the view that securities and other financial sector regulators should be represented through their international representative bodies only, so as to preserve a sense of public interest.

In addition, the Court would like to raise a concern with respect to the fact that the international organisations in charge of public management (e.g. the IMF, the OECD, the United Nations, etc.) may choose to only have an observer role; rather, it is essential that those international organisations should be taking full responsibility at monitoring level to ensure cohesiveness with a view to a long-range involvement.

**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

The Court agrees that individuals that would compose the oversight body should be highly competent in both financial reporting and public sector matters. However, they believe that providing a description of current functions and positions of those individuals might help in figuring out the composition of the oversight body.

As such, the Court believes that high level officials competent in public sector accounting and financial management would be a match as they would be able to liaise with both the monitoring board on more political issues as well as with the IPSAS board on more technical issues.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.
Dear Co-Chairs:

The Future Governance of the International Public Sector Accounting Standards Board

Deloitte Touche Tohmatsu Limited is pleased to respond to the IPSASB Governance Review Group's public consultation: The Future Governance of the International Public Sector Accounting Standards Board (the Consultation). We commend the members of the Review Group for undertaking this review and for the opportunity to comment on this topic, which is increasingly important as the recent euro-area sovereign debt crisis demonstrated.

We note that the recent sovereign debt crisis underscored the importance of comprehensive, reliable, and timely financial reporting by governments to global economic and financial stability, and that significant inconsistencies in financial reporting practices in the public sector were identified during the crisis. We support the ongoing work of the IPSASB to establish high quality accounting standards for the public sector, which we see as critical to bringing about a desirable change in fiscal transparency.

Although we comment on all questions raised in the Consultation in the Appendix, we wish to highlight the following matters:

- We support bringing the International Public Sector Accounting Standards Board within the governance framework of the International Financial Reporting Standards Foundation. In our view, the oversight and monitoring provided by the IFRSF Trustees and Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting.
• Bringing IPSASB within the governance framework of the IFRS Foundation would reduce the overall cost of international accounting standard-setting. It would also allow both private- and public-sector standard-setters to follow the same due process, which is the best guarantee that International Public Sector Accountings Standards will be of high-quality, promote transparency and improve accountability of governments.

• A single oversight and monitoring framework would mean that the scope of private- and public-sector financial reporting standards would be set by the same body, thus ensuring that there would be consistency about which standards apply to any given reporting entity. We are concerned that some public sector items, liabilities in particular, are not reported in any balance sheet.

• We think that the IFRS Foundation Trustees would be able to provide appropriate oversight of the work of the IPSASB, given that at least half of the Trustees have public sector or public policy experience. We acknowledge that it will be necessary for the IFRS Foundation to follow its own due process to amend its Constitution, oversight and monitoring arrangements to achieve this function.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely

Frans Van Schaik
Global Leader
Public Sector Accounting & Auditing

Veronica Poole
Global IFRS Leader

cc: Michel Prada, IFRS Foundation
Appendix

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

We agree that it is desirable to strengthen the governance of the IPSASB including making improvements that reflect recent developments and emerging best practice in similar standard-setting situations. Although we evaluate all the options provided in the Consultation, we think that Option A should be the objective, acknowledging that this option requires time and further due process before it can be put into effect. In the meantime, IFAC may wish to consider implementing some aspects of Option B.

Bringing IPSASB under the monitoring and oversight functions of the IFRS Foundation

We support bringing the IPSASB within the governance framework of the International Financial Reporting Standards Foundation. In our view, the oversight and monitoring provided by the IFRS Foundation Trustees and the IFRSF Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting and strengthen the IPSASB’s independence. We note that private and public sector standard-setters are overseen by the same oversight bodies in other jurisdictions, including Australia, Canada and the United States.

At present, the IFRS Foundation’s primary objective, as set out in its Constitution and reaffirmed during the 2010-12 Strategy Review, is to develop a single set of high quality globally accepted financial reporting standards that should serve investors, other participants in the world’s capital markets and other users of financial information in making informed resource allocation and other economic decisions.

As part of the 2010-2012 Strategy Review, the IFRS Foundation Trustees asked whether the focus on private-sector market participants remained appropriate. At that time, a majority of respondents to that consultation (including Deloitte) supported the view that the primary focus should remain on standards for private sector entities. Consequently, the IFRS Foundation Trustees concluded that: “In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (i.e., publicly traded entities, other public interest entities, SMEs).”

We think that it is appropriate to revisit this matter. In our view, the IFRS Foundation Trustees would be able to provide appropriate oversight of the work of the IPSASB, given that at least half of the Trustees have public sector/ public policy experience. As such, we think that the Trustees already possess a broad understanding of the needs of users of public sector accounts. Any actual or perceived deficiencies could be addressed as new Trustees are appointed.

We acknowledge that it would be necessary for the IFRS Foundation to follow its own due process to amend its Constitution, oversight and monitoring arrangements to bring the IPSASB within its governance
arrangements. We note that the IFRS Foundation has announced a Strategic and Operational Review that will commence in 2015, which would give the IFRS Foundation Trustees an opportunity to begin this discussion.

We also acknowledge that the IFRSF Monitoring Board would need to determine whether and, if so, how its membership and remit might need to be amended. However, the Monitoring Board already represents the public interest (the members being primarily public authorities), and capital markets under their supervision are accessed by governments and other public sector entities. Consequently, we do not think that these issues are insurmountable.

More problematic might be funding expanded operations of the IFRS Foundation, if it is to address public sector standard-setting. The IFRS Foundation has struggled to establish a stable, independent funding base for its current private sector activities: adding public sector responsibilities could strain the funding challenges still further. Any involvement of IFAC Member Bodies in funding the IPSASB would likely be as contentious as it was when the IASC was being restructured in 1998-2000, and would need to be severed if the IPSASB were to be held to the same standards of independence as the IASB. Bringing both private and public sector financial reporting standard-setting under the same governance framework, with a common due process and probable synergies in staff resources, would mean that the incremental increase in financial resources would not be as significant as they would be if the IPSASB were to be established as a separate standard-setter.

Establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies

In our view, attempting to establish the IPSASB as a separate standard-setter with its own governance and monitoring structure, including establishing a stable funding platform for these activities would be challenging at present and sub-optimal in the long run.

The situation facing the IPSASB in 2014 is quite different from that which existed when the IASC restructured in 1999-2001, when there was a high degree of support for re-establishing the IASC as an independent private sector standard-setter. That restructuring was undertaken in the context of a globally-based consensus among jurisdictions (including Australia, Canada, the EU, Japan and the U.S. in particular) and other key stakeholders as to the goal, although views differed about structures and governance. We do not see sufficient evidence of an equivalent consensus among jurisdictions and international institutions and the willingness to provide adequate funding to make this option viable.

IPSASB remains under the auspices of the IFAC, but with separate monitoring and oversight boards

We see this option as a short-term solution, while the IFRS Foundation and the IFRSF Monitoring Board undertake the necessary due process to bring the IPSASB within its governance framework. It would allow the standard-setting activities of the IPSASB to continue and would permit the existing funding arrangements to remain in place, while allowing for improvements in oversight.

In particular, we would support establishing a Consultative Advisory Group (CAG) for the IPSASB, similar to the CAG of other IFAC standard-setting boards, to provide both advice on technical issues and on IPSASB’s work program and project priorities, and more strategic matters. The initial membership of the CAG might include IPSASB’s current Observers.
Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

We support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation. We agree that an issue to be considered in doing so would be the role of governments in the public sector standard setting process, whilst preserving the independence of the IPSASB. In our view, the oversight and monitoring provided by the IFRSF Trustees and Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting.

However, if it is decided that Option 2 or 3 should be followed, and as we explain in more detail in our responses to Questions 3 and 4, below, we are not convinced that a separate monitoring body is necessary.

Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

As noted above, we support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation.

However, if it is decided that Option 2 or 3 should be followed, we are not convinced that a monitoring body is required. In the IFRS Foundation and Public Interest Oversight Board models, the monitoring body provides a link between private sector ‘ overseers’ and public authorities responsible for the regulation of the securities markets in which the standards are used. This link is necessary, given that the IFRS Foundation and PIOB oversee standard setters operating in and for the private sector but acting in the public interest. If the IPSASB is established as a stand-alone independent standard-setter, it should be overseen by representatives of the public sector, since the standards they produce would be used by the public sector. As such, we think that the composition of the monitoring group would be drawn from the same pool of agencies and institutions that we would expect to provide members for the oversight body.

Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

As noted above, we support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation.

However, if it is decided that Option 2 or 3 should be followed, we think that the IPSASB oversight body, which we see as functioning in a similar manner to the IFRS Foundation Trustees and the PIOB Trustees, would have responsibility for funding, governance and oversight of the standard-setter. Members should be drawn from the agencies and institutions identified in Section IV paragraph B.

We agree that candidates for the oversight body should be highly familiar with public sector financial reporting and managing accountability to Parliaments and international agencies.
We disagree with the qualifications proposed for candidates of the oversight body (“individuals who have both an appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public sector”). We see such qualifications, when combined with the Consultation’s observation that such people might be “accounting standard setters, preparers of financial reporting, public practice professionals, and academics” as more appropriate for the standard-setter itself rather than the oversight body. In our view, the oversight body should have a more rounded public sector background, and reflect experience at very senior levels (CEO-equivalent) in central and local government and in publicly-funded agencies.

Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

None not addressed elsewhere in this response.
30 April 2014

The International Public Sector Accounting Standards Board
Governance Review Group

by E-mail: IPSASB@oecd.org

Dear Sirs,

Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) of January 2014

The Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW: Institute of Public Auditors in Germany, Incorporated Association) represents over 12,000 Wirtschaftsprüfer (German Public Auditors), or about 86% of all Wirtschaftsprüfer in Germany. German public auditors may be involved in auditing or performing other accounting related services within the public sector. Therefore, many of our members also have a strong interest in auditing and accounting matters relating to the public sector.

The IDW is pleased to have the opportunity to respond to the above mentioned public consultation (hereinafter referred to as “the Consultation”). We share the co-chair’s view as to the urgency of the need to address financial reporting in the public sector. As a Member of IFAC, the IDW continues its support for the work of IPSASB, as for its predecessor the PSC, in regard to public sector accounting, and believes that the international standards it develops should play an important role in this context.

In the various discussions concerning Eurostat’s proposals for harmonization of public sector accounting in the European Union recently, the IDW expressed its view that in today’s economic environment fostering harmonization of public sector accounting on an accruals basis, which gains Member States’ acceptance, is highly desirable and needs to be addressed as a matter of urgency, and further that – in the longer term – application of standards
promulgated by the IPSASB would likely be the most appropriate way to achieve this goal at both European and international levels.

Governance and, in particular, the perceived need for a more appropriate mechanism to oversee the IPSASB’s work is one of a number of issues that may impact the perceived legitimacy of the IPSASB and consequently has led to questions by some parties about the suitability of IPSASs as a suite of accounting standards for the public sector. As the paper explains, the need for an appropriate oversight mechanism for the work carried out by the IPSASB has been recognized for a long time. Given the lack of progress in this area, despite a number of initiatives by various parties, we welcome the fact that the Review Group has issued this Consultation in order to move forward in addressing this important issue.

We fully agree with the reasoning of, and conclusions reached by, the Review Group that, rather than the establishment of a standard setting board for the public sector comprising official bodies in lieu of the IPSASB, “enhancements to the current IPSASB governance arrangements, along the lines of other non-official standard setters, represented a more appropriate and proportional response” (second paragraph of section IV of the Consultation).

In responding to this Consultation, we would also like to refer to the IDW’s letter to the Monitoring Group dated June 27, 2012 in response to their “Public consultation on the governance of the Monitoring Group, the PIOB and the standard-setting boards and Compliance Advisory panel operating under the auspices of IFAC”. The IDW had expressed firm support for the IPSASB being subject to PIOB oversight, arguing that whether the standards in question are for financial reporting or for auditing, is not the driver in determining which body could undertake an oversight function for the IPSASB. The IDW underlined that the issue that is of prime importance is that an excellent oversight system such as the one devised by the MG and IFAC be applied to the IPSASB. Specifically, the IDW did not support a public sector exclusive model (similar to option b in this Consultation) on the grounds that it is important that the body overseeing the standard-setting process of the IPSASB not be dominated by public sector bodies. Indeed, in recognition of the vested interest both businesses and individuals have in financial reporting by the public sector, the IDW underlined the importance of such an oversight body including representatives from the wider private sector. We continue to hold this view.

We respond to each of the questions posed in the Consultation as follows:
Question 1

As noted above, we appreciate that there is a need to strengthen the monitoring and oversight of the IPSASB.

In our view, none of the three options proposed is entirely suitable for dealing with the considerations identified in the Consultation: 1) expedient timing in introducing oversight, 2) the cost efficiency of oversight mechanism and 3) the availability of necessary funding to a satisfactory degree. For the further reasons discussed below, we do not believe that either option a. or option c. are feasible at the present time or in the near to medium term. Whilst option b. is preferable to either of these, it does not seem to be a practical solution, particularly given the need to dealing with the three practical considerations the Review Group has identified in the Consultation: speed with which new governance arrangements can be put in place; likely costs associated with different oversight options; availability of funding and the issues we had identified in the above mentioned letter we sent to IFAC previously. We therefore believe that other options will need to be considered, certainly in the short term. We explain our views, taking each option in turn:

Option a.

According to our understanding, the IFRS foundation has previously ruled out this option for the near to the medium term. We note that in discussing the IPSASB Governance Review Group’s proposals during its meeting on February 24-25th 2014, the IFRS Advisory Council also reached broad consensus that it would not be feasible, at least in the short term, to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. It is unclear to us why this option, which was previously rejected by the IFRS foundation, is included among the options even though oversight under the current IFAC Monitoring Group and PIOB is not included since it had previously been rejected by the Monitoring Group. It appears to us that rejection by the Monitoring Group is being handled differently in the paper than rejection by the IFRS foundation without adequate reason. In any case, the rejection by the IFRS foundation does not make option a. viable in the short to medium term.

Option b.

While this option might be the most feasible of the three, as proposed it would require the establishment of an operating infrastructure completely separate from that of IFAC’s current Monitoring Group and PIOB. Having two separate oversight mechanisms for standard setting Boards operating under the auspices
of IFAC would mean that such a “new” structure would be unable to benefit from either the experience or the economies of scale that would be available if a single, but adapted governance structure were to be established. We also remain concerned that establishing a separate governance mechanism solely for the IPSASB might not take appropriate account of the legitimate interests of stakeholders outside the public sector. We also note that, whilst the IPSASB’s own consultation in 2011 showed mixed preferences, it did reveal that funding such a structure remains a key issue. These issues would need to be addressed for a solution based on option b. to be viable. We would therefore encourage the Review Group to ensure these issues are adequately addressed in presenting its final recommendations.

**Option c.**

In our view, this option is simply not feasible from a financial or operating perspective. No bodies have come forward, nor are any likely to in the near future, that are prepared to finance this option and to provide the necessary operating infrastructure. Even if bodies were to present themselves to provide funding or infrastructure, if these bodies were, or were to be associated with, the public sector (i.e., preparers or public sector auditing bodies) it would be necessary to delink funding or infrastructure from control over the standard setting process. Unlike IFAC has done with its other standard setting boards, such bodies are much more likely to seek to link funding and the provision of services in kind to control, potentially compromising the IPSASB’s independence. We are therefore not convinced that option c. is viable either.

**Question 2**

We do not fully agree with the proposed remit for IPSASB monitoring and oversight body(ies) in section IV, paragraph A, and in Figure 1 on page 6 of the Consultation. In particular, we note that the points in (i) to (iii) in the second paragraph confuse the respective responsibilities of a monitoring and oversight function. In our view, points (i) to (iii) as described in the second paragraph of A are all oversight functions – indeed, these are the functions currently performed by the PIOB in respect of the other standard setting boards under the auspices of IFAC. In our view, monitoring bodies are supposed to ensure that the governance structure is appropriate for safeguarding the public interest and that the oversight function fulfills its role in this respect. Furthermore, it is not the responsibility of Consultative Advisory Groups to provide “technical” advice – rather their function is to provide political advice on the needs of various
stakeholders. Nor should a CAG be responsible for seeking feedback from the users of the standards. The technical expertise needs to reside in the IPSASB itself. The standard setter should expect to receive views from the CAG as to political and practical implications during the development of its pronouncements, whereas public consultation and exposure of drafts, including post-implementation reviews should remain the mechanism to deal with feedback from users.

Question 3

We agree that the public interest is a key issue that needs to be at the fore of international standard setting mechanisms for the public sector, and that achieving an appropriate participation from a diverse stakeholder base is more complex than in the private sector. In particular, in order to avoid undue dominance by public sector organizations, we agree that it is essential that organizations representing the interests of investors, such as securities and other financial regulators (termed “secondary resource providers as” in the Consultation) fully participate in a monitoring function. Such involvement should not be limited to the role of observer.

However, we do not agree with all of the suggestions for the proposed composition for the monitoring body in section IV, paragraph B. The monitoring group should not include bodies with parochial, national interests. However, an international body representing national monitoring bodies may be acceptable as it will not represent any particular national interest.

Question 4

We do not agree with the composition proposed for the oversight body in section IV, paragraph B (that is, individuals who have both appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public sector). For example, we note that the current PIOB overseeing the standard setting activities of the IAASB, IESBA and IAESB does not include experts in auditing standards, ethical codes, or education of accountants – nor should it. Technical expertise belongs in the standard setting board. The role of an oversight body is to ensure that the strategy and work program of the standard setting boards appropriately take the public interest into account, that the composition of the Board is appropriate under its terms of reference, and that due process is followed taking into
account the public interest. It is therefore important that public oversight over the IPSASB include individuals with the skills akin to those already available on the current PIOB. Technical competence in public sector financial reporting is not directly relevant. Indeed, such experience could, in fact, be detrimental, because the views of persons with such experience may be anchored by their experience, rather than by public interest needs. A general understanding of the issues discussed during the development of pronouncements, including disposal of comments received from the IPSASB’s constituents and an improved CAG, operating in a similar manner to the CAGs of other IFAC standard setting Boards would therefore be sufficient and appropriate.

Question 5

We note that the original option to adapt IFAC’s current MG and PIOB to encompass the IPSASB – which, following drawn out deliberation, the IFAC’s MG finally declined in 2013 – has not been considered as an option in the Consultation.

We are not convinced that the changes needed to the membership of the current Monitoring Group or to the current PIOB would – as contended by the MG – actually be detrimental to the performance of their current roles. Indeed, we believe that such changes could, in fact, enhance the performance of their current roles. As we explain in more detail in our response to question 4, we do not believe that recognized experience in the public sector is an essential attribute.

Given the issues we have identified with option b., we view the MG’s above-mentioned rejection as highly regrettable and not necessarily in the public interest.

We would be happy to discuss any aspects of this letter.

Yours faithfully,

Klaus-Peter Feld
Executive Director

Wolfgang Böhm
Director, Assurance Standards,
International Affairs

494/584
A standing secretariat formed within the standard setting body can improve research and development activities necessary for standard-setting. A standing secretariat is expected to accumulate ample knowledge for standard-setting (*6).
April 30, 2014

The International Public Sector Accounting Standards Board Governance Review Group  
C/O The Organization for Economic Co-operation and Development (OECD)  
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France

Comments on Public Consultation “The Future Governance of the  
International Public Sector Accounting Standards Board (IPSASB)”

Dear Sirs,

We would like to thank you for giving us the opportunity to comment on your public consultation, “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)”, issued in January 2014.

Strengthened IPSASB governance will remain essential to the ongoing work to facilitate the adoption of the International Public Sector Accounting Standards (IPSASs). The International Federation of Accountants (IFAC) and the IPSASB have been discussing approaches to enhance IPSASB governance since around 2010. We applaud your efforts to review the governance of the IPSASB.
Board Members of the IPSASB nominated by JICPA have continued to serve since 2004. We have consistently held a great interest in the activities of IPSASB, as we have sent comment letters on almost every due process documents such as exposure draft, issued by the IPSASB.

From 2012 to 2013, JICPA carried out a survey on the mechanisms for developing public sector accounting standards. This survey focused, among other topics, on the organizations and governance arrangements of the public sector accounting standard setters in selected jurisdictions. In June of 2013 we published a report on the survey findings. This comment letter accompanies an executive summary of the report (translated into English). The survey was conducted both by a review of published material and field visits to seven countries (United States, Canada, United Kingdom, France, Australia, New Zealand, and South Korea). The survey was conducted from the perspective of finding solutions for improving the mechanism of public sector accounting standards setting in Japan. The various aspects of international standards setting were not thoroughly explored or considered. Even so, we believe that the survey will provide useful inputs for considering optimal governance arrangements for the IPSASB. As such, we refer to the survey findings in several parts of this comment letter, as appropriate. If you find these useful, we will be pleased to provide more in-depth information on the survey results.
I. General comments

Acknowledging that the strengthening of the IPSASB governance is an urgent issue to address

Governance issues of the IPSASB were addressed as a part of the IFAC reform in 2003. They were also discussed in the report prepared by an externally chaired review panel (the “Likierman Review”) in 2004. We understand that the IPSASB governance was highlighted as a significant agenda in 2009, when the IPSASB commenced its discussion on the strategies and work plans for 2010 – 2012. During the discussion, the IPSASB fully recognized that in order to be a “truly global standard setter,” it would have to facilitate and increase the adoption of IPSASs by governments of individual jurisdictions. In ensuing consultations between the IPSASB and jurisdictions potentially intending to adopt IPSASs, some jurisdictions stated that the lack of sufficient governance of the IPSASB was an obstacle to the adoption. In response, the IPSASB prioritized its own governance arrangements as an “urgent issue.” The discussions at the time (2010 – 2011) indicated that the adoption of new governance arrangements was expected to be made effective from January 2013.¹

Then, the sovereign debt crisis significantly highlighted the need to improve the transparency of financial reporting by governments. At the same time, and in the same context, active discussion arose on the need to develop uniformed public sector accounting standards, particularly in Europe. An increasing number of economies, in particular emerging countries, adopted the IPSASs. But there are significant diversities in the way of “adoption”. In many cases the efforts toward adoption are limited to the development of national standards based on the IPSASs. We can cite many reasons for this. One important reason, we believe, is a general reluctance among countries to entrust external entities with the development of financial reporting standards with which their own governments would be required to comply. The strengthening of the IPSASB governance could be an answer to address the concern for the countries reluctant to fully adopt the IPSASs.

¹ Agenda 8 “IPSASB Oversight” the IPSASB meeting in Jakarta, November 2010
In consideration of the above, we believe that the strengthening of the governance remains an urgent challenge for the IPSASB, just as it was during the 2010 – 2011 cycle. The views provided in the comment letter are based on this recognition.

**Discussions on IPSASB governance should not hinder the ongoing activities of the IPSASB to develop standards.**

The governance issues of standard setters closely relates to fundraising to cover the cost of the standard setting activities themselves, as well as the overseeing activities. The IPSASB is now operated on a relatively stable financial basis, but the sources of funding are not so stable. The funding sources for the IPSASB have been heavily relied on IFAC (ultimately on the member bodies of IFAC) and limited external contributors. In general, we can argue that to date the IPSASB has been financed by “generous” fund providers. The level of interest of IFAC member bodies in the public sector accounting standards varies sharply from one member body to another. Some member bodies have questioned that IFAC has incurred the majority of the financing for the IPSASB activities. Though IFAC and other related bodies have strived to make the financing arrangements for the IPSASB more stable and diversified, we do not believe these efforts have been sufficiently successful.

Serious financial difficulties in the past (from around 2004 to 2005) risked the continuity of the IPSASB’s activities. Several competent staff left the IPSASB over the same period, draining the organization of know-how to some degree. We believe that the discussions on IPSASB governance should carefully address the ways to prevent this situation from recurring.

Option 3 proposed at section IV, C in the Consultation Paper (CP) assumes that the IPSASB would operate outside of IFAC. Although not clearly stated in the CP, we assume that Option 1 implies something similar. We are very concerned that the CP has not discussed the method by which IFAC funds for the activities could be substituted in such cases. If the IPSASB operates outside of IFAC, it might be too optimistic to expect IFAC member bodies to accept continuous financing by IFAC to the degree that has been provided to date.
II. Comments on specific questions to consider

Question 1:
Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:
   a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
   b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
   c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
   d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

We agree that there is a need to strengthen the monitoring and oversight of the IPSASB. Given the urgency as noted above, the only realistic alternative seems to be as outlined in the (b) above: “Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC.”

As noted, such separate monitoring and oversight boards would only be responsible for monitoring and oversight of the IPSASB, in other words, the scope of their activities would be relatively narrow. In light of this, we would prefer “a single monitoring and oversight board,” as indicated in this CP.

In this case, a structure should be developed whereby IFAC would not incur the operational costs for the monitoring and oversight board. Under alternative (b), the IPSASB’s position under the auspices of IFAC would shed doubt on the independence of oversight body if the organizations subject to the oversight bore the operational costs of the monitoring and oversight board.

The CP noted that “continued reliance on IFAC for the bulk of the IPSASB funding could raise questions in some quarters about the Board’s independence from the accounting profession.” These concerns can be effectively mitigated by diversifying the funding sources for the IPSASB. It is important to continue the current efforts to reduce financial reliance on IFAC.
We understand the viability of alternatives (a) and (c) in the long-term. Yet, this is an urgent issue that will require practical solutions within a reasonable time frame. Once the monitoring and oversight of the IPSASB are implemented and stabilized to achieve appropriate governance in the short-term, then a focus on a long-term perspective would not unduly disrupt the discussions on monitoring and oversight per se. However, any discussion from a long-term perspective, while the governance arrangements for the IPSASB were being formed, could adversely affect the confidence in the governance structure to be developed. We are also deeply concerned that such adverse effects might dissuade the current fund providers from contributing funds to the IPSASB (especially IFAC member bodies). We will comment further on alternatives (a) and (c), together with our comments on Question 5 below.

Question 2:
Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Unlike the remit of the PIOB for the IAASB monitoring and oversight bodies, the remit proposed in the CP does not include the “oversight of due process of standard setting.” The “oversight of due process of standards setting” is a critical function served by an oversight body, a function we believe should be included in the remit.

We would also like to ask you to clarify the meaning of “(iii) ensure appropriate consultation and transparency in the development and approval of the strategy, work program, and budget of the different bodies.” The IPSASB is an independent standard setter and determines its own strategy and work programs by itself. On this premise, the monitoring and oversight bodies confirm that the transparency of the determination is ensured, as appropriate consultation is made with constituents on the relevant matters. That is, they will monitor and oversee the due process over the determination. In our view, the monitoring and oversight bodies should not play an active role in the determination of strategies or work programs. The IPSASB should certainly obtain relevant inputs for determining the strategies and work programs, but the Consultative Advisory Group (CAG) should be the appropriate party to provide the inputs, as we refer in our response to Question 5.
Question 3:
Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

Question 4:
Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

[Composition of Monitoring Body]

The composition of a monitoring body for a public sector standard setter naturally differs from that for a private sector standard setter, and requires separate consideration. As appropriately indicated in the CP, we agree that “identifying those official sector bodies that shall represent the public interest is more complex” in the public sector. An organization thought to represent the public interest in a jurisdiction is generally a public body with the ability to regulate the relevant areas. Yet, when it comes to public sector accounting standards, the public body in question, as a preparer of financial statements, should itself comply with the accounting standards developed by the standard setter. This may give rise to a conflict of interest.

We have found, in our own research into the mechanism for the development of public sector accounting standards in selected jurisdictions, that many jurisdictions have undertaken innovative measures to avoid or mitigate the effect of this complicated issue. In many cases these jurisdictions seek to prevent the organizations directly responsible for the financial reporting of the government (generally ministries of finance) from directly and decisively influencing the development of the accounting standards.

We agree with the view in the CP that “the best means to ensure that the public interest is adequately represented is to balance these various interests.” We also agree, as noted in the CP, that (international) organizations and institutions may choose to be involved in the monitoring body as observers or by designating members acting ex officio.

We do not, however, support one of the CP recommendations regarding the
composition of the monitoring bodies, namely, that the “national monitoring bodies responsible for overseeing the work of standard setting for their domestic public sector institutions” in specified countries or jurisdictions should be members of the monitoring bodies. The governance structures of public sector accounting standard setters are diverse and vary from one country to another. It is not clear that in a given country “to ensure that the public interest is adequately represented is to balance these various interests in a monitoring body.” In cases where individual countries or regions are involved, geographic and other balances should be maintained in the framework for the development of international accounting standards. Such balances, however, might be difficult to achieve when a small number of members is expected.  

[Composition of Oversight Body]
We agree that an oversight body should be composed of individuals with relevant competence. We question, however, whether those individuals need to “have both an appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public sector.” (emphasis added) In our view, the oversight body would operate well if it comprised individuals with a balance of competencies in the group, not exclusively individuals with both types of competence at the same time. Further, it appears that the competence of individuals described in the CP might be biased towards technical competence in accounting and financial reporting. The members of the oversight body should have extensive experience and insights into the accountability and transparency of the standards setting process. Sophisticated technical competence levels and experience in accounting areas are not always necessary.

[Composition when Aiming at a Single Monitoring and Oversight Body]
As stated in response to Question 1, we support Option (b) “Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC.” And, we also believe that such a board has to be an integrated single monitoring and

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2 Securities regulators of the US, Europe, and Japan are now involved in the Monitoring Board of the IFRS Foundation. This involvement of institutions responsible for large capital markets is certainly reasonable, as the IASB is now developing IFRSs with a focus on capital markets. Yet the development of public sector accounting standards differs from those for the private sector. It would, therefore, be inappropriate to include governmental agencies with jurisdiction over specified countries or regions.
oversight body. The following are our comments on the composition of an integrated monitoring and oversight body.

A single monitoring and oversight body should be made up of representatives of the relevant international organizations that make up the monitoring mechanism (ex officio member) and individuals who have relevant competence to take part in the oversight organization. Ex officio members should include IFAC (our reasons for this are in our comments on Question 5). The role of selecting “individuals with relevant competence” should be left, for example, initially to the ex officio members, and then subsequent selections would be made by the members of the monitoring and oversight body other than by the ex officio members.

Meanwhile, in consideration of limited financial resources, it would be necessary to operate the body at the lowest possible cost. Large expenses could be avoided, for example, if the expenses of the ex officio members were incurred by the organizations to which they belong.

Question 5:
Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

[Differences between Oversight over Audit Related Standards Setting Bodies by the PIOB and Oversight over the IPSASB by a New Body]

The reference to Question 1, Option (b) “Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC,” would imply the establishment of a public sector version of the Public Interest Oversight Board (PIOB). As such, the differences from PIOB oversight over the audit-related standards setting bodies should be carefully considered.

The current PIOB has focused on the safeguards for any doubt arising when international standards boards, including the IAASB, under the auspices of IFAC
develop audit or ethic standards that serve as codes of conduct for the accountancy profession. In view of the technical specialties entailed in the issue under review, though accountancy profession is required to be much involved in the development of standards, it must take steps, in developing standards, to ensure that the accountancy profession is not allowed exclusive influence on the standards setting, and that the “accountancy profession develops the standards for the sake of public interest, not from the perspective of its own interest.” In other words, the monitoring and oversight activities should focus on the safeguards for possible conflicts of interest when developing standards under the auspices of IFAC, an international organization for the accountancy profession.

On the other hand, in the case of the IPSASB, which is the accounting standard setter for the public sector, the accountancy profession’s interest in public sector accounting standards is no greater than its interest in audit standards or ethical standards. Therefore, the focus of the oversight is not on conflicts of interest of the accountancy profession, but on, for example, the exercise of neutral viewpoints in terms of “wide-ranging discussions and reflection of technical specialties.” For example, the discussion of the classification of “practitioners” versus “non-practitioners” in the selection of the board members for the IAASB, IESBA, or IAESB does not apply to the IPSASB. This is why we think IFAC should be included among the ex officio members in the “mechanism to implement single monitoring and oversight.” The accountancy profession is the largest funding source for the current standards setting efforts by the IPSASB, but not the largest stakeholder in public sector accounting standards.

[Establishment of a CAG]
We believe that a consultative advisory group (CAG), which exists for other standard setters under auspices of IFAC, needs to be established for the IPSASB as a source of providing and obtaining technical advice on the development of IPSASB strategy and work programs. Especially, a wide variety of stakeholders are interested in public sector accounting standards, therefore calling for their participation through CAG activities will be a key for enhancing confidence in the IPSASB.

[Discussion on the Governance of the IPSASB from a Long-Term Perspective]
From the long-term perspective, there are certainly other useful available alternatives such as Option 1 or 3 in section IV, C of the CP. As stated in our response to Question 1, we believe that the strengthening of the IPSASB governance is an urgent issue to be addressed. We should strive to strengthen the governance within a reasonable time by directing relevant resources to arrive at solutions.

On the above premises, we believe the following comments may prove to be useful for discussions on a long-term basis, after the short-term solution is achieved. Our current comments should not be construed at this stage to express explicit approval or support for either Option 1 or 3 in section IV, C.

[Standards setting by the Official Sector]
This CP classifies the existing standards setting model into standards setting by the official sector and standards setting by private sector entities. Then, after some discussion, the CP rejects the notion of the former. We strongly support the statement of this position in the CP. According to our own research and studies, many public sector standard setters in individual jurisdictions belong to official sectors (thus their activities are funded by government budgets). However, these standards setting by the official sector largely differs from the standards setting model noted in the CP, where the standard setters either comprise, or are directly overseen by, representatives of national governments, i.e., the official sector. Rather, the countries that have adopted mechanisms whereby entities in the official sector develop public sector accounting standards have designed and implemented institutional systems that prevent specific government entities from exercising direct and decisive influence over the standards setting process. Further, as appropriately mentioned in the CP, it can thus be difficult for the official sector to develop public sector accounting standards without facing a fundamental conflict of interest.

[Comment on the proposal to “Extend the scope of the IFRS Foundation’s MB and

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3 Accounting standard setters for the public sector include the government agencies represented by the US FASB (federal government), UK Finance Ministry (central government), France, and South Korea. The US GASB (state and regional governments) and Canada CPAB operate as private standard setters. Accounting standard setters for both the public and private sectors relate to the Australia ASB and New Zealand XRB.
The advantages and disadvantages of this proposal have already been noted in the CP. We believe the following points should be further discussed.

The CP noted that “integrating the IPSASB into the IFRS Foundation’s oversight framework would support the long-term convergence of financial reporting standards between the private and public sector.” Yet, clear benefits can only be reaped from these advantages if both the IASB and IPSASB define their strategic goal as the convergence of accounting standards of both sectors. The IPSASB has currently identified convergence as its goal, but the IASB has not. Furthermore, recent discussions at the IASB meetings have rarely considered convergence with the public sector accounting standards.

For example, the FASB, the accounting standard board for the private sector in the US, and the GASB, the accounting standard board for state and local governments develop accounting standards under the auspices of the same organization, namely Financial Accounting Foundation (FAF). The standards developed by the two boards have not converged, at least not to the extent that the IFRSs and IPSASs have converged. We cannot completely disagree that a model where two standard setters develop standards under a single set of governance arrangements may have advantages; as such a model could promote the convergence of the two standards. In this respect, it would be essential to firstly discuss the level at which the accounting standards of the two standard setters should be converged. Any efforts to achieve a high level of convergence will fail, unless the related entities indicate strong interest in achieving the convergence of the accounting standards of both sectors, even in the event of consensus on convergence.

The CP mentions additional funding for oversight activities as an issue entailed in this proposal, but it makes no mention of any funding issues for the IPSASB activities themselves. The CP does not clearly state so, but the integration of the IPSASB into the governance arrangements of the IFRS Foundation effectively implies that the IPSASB

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4 According to our research report, there is no international consensus on the level of convergence of the accounting standards of the two sectors. The UK, Australia, and New Zealand have looked to sector-neutral or highly converged accounting standards. On the other hand, Japan, the US, Canada, and South Korea have not been oriented in that direction.
would operate outside of IFAC. It would, therefore, be unrealistic to expect the funding from IFAC to continue as is.
The current funding of the IFRS Foundation largely depends on the recognition that the IFRS Foundation will develop financial reporting standards for the private sector, in particular, entities raising funds from capital markets. Current fund providers to IFRS foundation would have difficulties to accept the allocation of their funding to the activities of the IPSASB. Looking back to the above example of the FASB and GASB in the US, both operate under the auspices of the FAF, but their accounting related to funding and activities have been separately maintained.

In consideration of the above, the proposal on “Extending the scope of the IFRS Foundation’s MB and Trustees activities” does present some attractive features for those who prefer a high level of convergence of the IFRSs and IPSASs. But this issue should be widely discussed beyond the scope of the discussion on the governance of the IPSASB, after fully considering the long-term goal of the IFRS Foundation (maintaining activities focused on the capital market or acting beyond the scope), or how the accounting standards of the two sectors interact. Therefore, apart from the financial reporting for the public sector, long-term and multifaceted discussions should be held with all of the stakeholders who indicate an interest in developing accounting standards for the private sector as well as the public sector. In holding such discussions, it would be desirable to take up the issue of who should develop international accounting standards for private sector non-profit organizations and how such standards should be developed.

[Other points]
The CP describes board members belonging to private sector accounting firms as experts for private sector accounting (for example, the descriptions at “I. BACKGROUND OF THE IPSASB A/ Origins.” That statement may be incorrect. To the best of our knowledge, past and current IPSASB members who work for private accounting firms have been recognized as experts for the public sector accounting through their professional engagements (audits of public entities or advisory engagements for accounting reform). If any accounting professionals working for private sector auditing firms lack sufficient expertise in the public sector, they may be excluded from
consideration in the selection of IPSASB members.

We express, again, our appreciation for this opportunity to provide our comments. We hope that our comments would be useful for your deliberations.

Yours sincerely,

Naohide Endo                                      Azuma Inoue  
Executive Board Member                             Executive Board Member  
Public Sector Accounting and Audit Practice        Public Sector Accounting and Audit Practice  
JICPA                                               JICPA
Executive Summary


1. Where the Problem Lies: The Objective of the Case Studies

Public sector entities should prepare and disclose their financial statements in accordance with accounting standards to fulfill their accountability. In addition, public sector accounting standards are necessary for users of financial statements to make their decisions. In Japan, while the contents of accounting standards for public sector has widely been discussed, the issue of ‘how’ the standards should be set has hardly been debated. We, the Japanese Institute of Certified Public Accountants (JICPA), believe that it is equally important to consider an appropriate process for standard setting for public sector, in addition to the careful deliberation of the standards themselves, in order to establish fair and independent standards that reflect views from a broad range of stakeholders.

JICPA believes that there are three major problems in the current system of setting public sector accounting standards in Japan, namely:

(1) Lack of an independence of standard-setting body (bodies);
(2) Lack of due process; and
(3) Fragmented standards

(1) Lack of an independent standard-setting body (bodies)

Currently in Japan, public sector accounting standards are set by standard-setting advisory boards and study groups formed under government Ministries (hereinafter referred to as “standard-setting advisory boards”). But in fact, standards are often drafted by officials in those Ministries since those boards do not usually have their own secretariats. Members of those boards are also appointed by respective Ministers in charge (e.g., Board on accounting standards for preparation of ministerial financial statements). Therefore, it is difficult to say that these boards are independent in practical terms.

JICPA believes that accounting standards should be set by an independent body (or bodies) through a transparent process. As governments also serves as the preparers of
financial statements in public sector, the standard-setting body should also maintain independence from national, regional, and local governments, or other related governmental agencies.

(2) Lack of due process
In setting accounting standards, an independent standard-setting body (bodies) should follow a rigorous open due process. That is, a proposal for a new or modified standard should be analyzed and discussed by members of an independent standard-setting board (or boards), and an exposure draft should be issued for public consultation. However, this process has not mostly been implemented in Japan, and exposure drafts for public sector accounting standards are not usually issued, except for some standards (*).

The due process for standard setting should also include rules related to the maintenance of meeting minutes and related documents, as well as the rules in regards to management of meetings and treatment of dissenting opinions. An independent standard setting body (bodies), is usually required to operate according to these rules. However, the standard-setting boards currently do not have such detailed rules in Japan. As no such rules exist, there is no system for monitoring the standard-setting processes of those boards.

* For example, for accounting standards that are prescribed in law or regulations, such as accounting standards for municipal utilities, an exposure draft would need to be issued for public consultation in accordance with the Administrative Procedure Act.

(3) Fragmented standards
In Japan, Ministries and standard-setting boards have set accounting standards specific to each type of public sector entities. That is, there exist separate standards specific to national, regional and local governments and other governmental agencies, including municipal utilities and incorporated administrative agencies. Very few of those standards have been revised to maintain consistency between them (e.g., Accounting standards for incorporated administrative agencies and those for national universities), and almost all of them have drafted without much consideration to the consistency.

Also, considerable human and financial resources would be required for setting
accounting standards, for example, to maintain independence, follow required due process, accumulate specialized knowledge, develop an expert, and support implementation. Fragmented standards would make it more difficult to secure sufficient human and financial resources to set or revise the standards by following this rigorous due process.

With those issues in mind, in partnership with Financial Accounting Standards Foundation (FASF), JICPA conducted case studies on how public sector accounting standards are set in the U.K., France, the U.S., Canada, Australia, New Zealand, and South Korea to present views about the future form of accounting standard setting for public sector in Japan.

2. Summary of Findings

(1) UK

In the U.K., public sector accounting standards are set based on EU-adopted IFRS with some adaptation for its public sector context. Financial Reporting Manual (FReM) is set for the national government, and the Code of Practice (the Code) is set for local governments. The use of each standard is prescribed in respective law or regulations. Public sector accounting standards are consistent with each other, since they are primarily based on EU-adopted IFRS.

FReM is set by the HM Treasury, and the Code is set by the CIPFA/LASAAC Local...
Authority Code Board (CIPFA/LASAAC). Both standard-setters have to consult with the Financial Reporting Advisory Board (FRAB) before issuing or revising the standards. FRAB was established within the HM Treasury.

Exposure drafts developed by both standard-setters need to be publicly consulted for at least eight weeks. There is no specific rule to designate who decides on agendas or how to treat dissenting opinions in those standard-setting bodies.

FRAB is also monitored by the FRAB review group. The scope of the review includes the future roles, structures and operational arrangements of the FRAB.

(2) France

Accounting standards specific to French governments are set in the form of administrative orders. The national government and local governments have separate suites of standards. Standards for the national government are set by the Ministry for the Economy and Finance (MEF), and those for the local governments are set by the Ministry of Internal Affairs. MEF has established an advisory body called the CNOCP (Le Conseil de normalisation des comptes publics or the Public Sector Accounting Standards Council) to review all of the administrative orders drafted by Ministries. No orders can be issued without seeking CNOCP’s views. Although CNOCP’s draft views are not issued for public consultation, once they are approved and submitted to Ministries, they are publicly published. CNOCP is monitored by an ‘Advisory Committee for Orientation’ when deciding on its agendas. CNOCP members who have dissenting opinions about the draft CNOCP views can present their opinions to the competent Ministries.

Accounting principles called “Plan comptable général (General Chart of Accounts)” will be applied to all entities, both private and public, in France. This prevents entities from adopting extremely different accounting treatments or unique types of charts of accounts.
The U.S. has separate suites of accounting standards for federal government and for state and local governments. The federal law designates a particular suit of accounting standards (FASAB standards) to be applied to the federal government, and most state laws also authorize a particular set of accounting standards (GASB standards) for application to their state and local governments.

Under the federal law, federal accounting standards are issued, after consultation of the Federal Accounting Standards Advisory Board (FASAB), by Sponsors of FASAB (namely, Office of Management and Budget (OMB), Government Accountability Office (GAO) and Department of Treasury (DOT)). Since standards are drafted by FASAB, FASAB substantially operates as a standard setter. FASAB has been jointly established by the Sponsors.

State and local accounting standards are issued by the Governmental Accounting Standards Board (GASB). GASB was established by the Financial Accounting Foundation (FAF), and FAF also established the Financial Accounting Standards Board (FASB).

Both in FASAB and GASB, drafts for new or modified standards are required to be exposed for public consultation for at least 30 days (usually 60 days or more). Dissenting
opinions of members presented while setting the standards are to be included in the core text of the standards (FASAB), or the basis of conclusions (GASB), with names of the members attached to each view. Agendas for the meetings are decided at the board meetings (FASAB) or by the chair (GASB).

It is notable that AICPA recognizes FASAB and GASB as GAAP standard setting bodies to give legitimacy to the standards set by them. The Sponsors of FASAB jointly establish, fund and monitor the FASAB, and FAF monitors GASB.

(4) Canada

A single set of public sector accounting standards applies to federal, provincial and local governments. The federal and provincial laws designate applicable accounting standards. Public Sector Accounting Board (PSAB), which was established by the Chartered Professional Accountants of Canada (CPA Canada), issues public sector accounting standards (PSA Handbook). Accounting Standards Oversight Council (AcSOC) in CPA Canada monitors PSAB.

PSAB votes to approve agendas after having a preliminary consent from AcSOC. Its draft standards are issued for public consultation for 60 days. Dissenting opinions are described in the basis of conclusions of each standard. Names of those members presented dissenting opinions are not shown, as voting by board members is kept confidential.

It is notable that, in Canada, professional accountancy organization establishes (and operates) both accounting standard-setting body and oversight body.
A single set of accounting standards based on IFRS applies to both private and public sector entities, with additional provisions set for the matters specific to public sector entities (Sector neutral approach, or to be exact, ‘transaction neutral’ approach). Standards are set by the Australian Accounting Standards Board (AASB), which is one of the governmental agencies. Commonwealth law and state laws designate accounting standards that apply to the governments. Draft standards need to be publicly consulted for at least 30 days. Dissenting opinions are included in the basis for conclusions of each standard.

The Australian Financial Reporting Council (the Australian FRC), which is also a governmental agency, monitors the AASB. Australian FRC gives the AASB advice on its priorities and strategies, but the final decision on its agendas would be made by the AASB.

Australia has become the only country adopting ‘pure’ sector neutral approach both in its form and in practical terms, since New Zealand had revised their framework for accounting standards.

The New Zealand Accounting Standards Board (NZASB) sets a suite of accounting standards (PBE standards) applying to both national and local governments. Those standards are based on the International Public Sector Accounting Standards (IPSAS) with some modifications in view of New Zealand public sector contexts.

NZASB also issues accounting standards that apply to for-profit entities. Agendas of the
NZASB are decided by the XRB (External Reporting Board). Draft standards are generally exposed for public consultation for three months (required to be exposed at least for one month).

Accounting standards are taken as regulations, and therefore, come into effect after the approval of New Zealand Assembly. XRB Board monitors NZASB. XRB Board and NZASB are organizations under the XRB.

(7) Korea

Two separate suites of standards for the national and local governments are designated by laws and presidential or ministerial orders. Accounting standards for the national government are within the jurisdiction of the Ministry of Strategy and Finance (MOSF), whereas the Ministry of Security and Public Administration (MOSPA) is a competent authority for accounting standards for local governments.

When the standards are set or revised, both Ministries need to consult with their advisory committees; namely, the National Accounting System Deliberation Committee for the national government, and the Financial Accounting Advancement
Sub-committee for local governments. As accounting standards are set in the form of ministerial orders, they seek public comments as required by the Administrative Procedure Act.

The National Accounting Standards Center (NASC) supports the MOSF in establishing and improving national accounting standards. It drafts accounting standards and conducts in-depth research on a contract basis with the MOSF, in accordance with its ministerial orders. The Korean Institute of Certified Public Accountants (KICPA) administers NASC. The Korea Research Institute for Local Administration (KRILA) conducts research, and studies on local governmental issues for the MOSPA.

3. Key Findings from the Case Studies

(1) Background for the formation of an independent standard-setting body (bodies)
In all countries studied, the financial crises caused by economic recession triggered a reform of public sector accounting system. In line with this reform, improvements to the ways in which accounting standards are set for public sector were also taken into consideration. Various stakeholders participated in the reform. For example, we found that administrative (such as Ministries) and legislative bodies (such as national assemblies), as well as the Supreme Audit Institutions or professional accountancy organizations have often led the reform.

(2) Structures of accounting standards and a standard-setting body (bodies)
Structures of accounting standards vary between jurisdictions. On one hand, there are countries such as Australia, New Zealand and Canada that have adopted a single set of standards. On the other hand, the U.K., France, the U.S. and South Korea have adopted two separate sets of standards for the national and local governments.
The countries that have a single set of standards (Australia, New Zealand and Canada) form a single standard-setting body. Even for those countries adopting two sets of standards, we have noted that some countries such as the UK and France have maintained consistency between standards through consultation between advisory bodies.

(3) Legitimacy of standards
In the U.S., (federal government, FASAB), Canada, Australia and New Zealand, federal or state governments designate accounting standards issued by the standard setting body in their financial management directions or other regulations in order to give them legitimacy. In those countries, public consultation period is guaranteed for stakeholders, and rules are clearly set for how to treat dissenting opinions of the members. In other countries such as France and South Korea, where standards are set in the form of administrative orders, reviews by advisory bodies or public consultation is conducted before issuing those orders.

(4) Members of the standard-setting boards and their operations and secretariats
In every standard-setting board under this study, members are appointed both from public and private sectors. We believe that appointing members both from private and public would be essential to gather a wide range of knowledge and information for establishing standards. In this respect, it is notable that some standard-setters (e.g., GASB for the U.S., and Canada, Australia) have full-time members. In all countries studied, member appointment process and the due process have been prescribed in the related law or regulations. Almost all of them also have their own permanent secretariats. Technical staffs serve basically full-time, and some of them are sent on loan to the standard-setting bodies from other related organizations.

(5) Association with a private sector standard-setting body (bodies)
Australian standard-setter establishes a single set of standards applicable for both public and private entities. New Zealand used to take a similar approach, but it has now been changed that, one standard-setter establishes two separate sets of standards for private and public sector entities. In the U.S., standard-setters for state and local governments and for private sector entities are administrated and monitored by the same parent organization. In Canada, professional accountancy organization operates standard-setting bodies for private and public sector. We note that, although the U.S. and Canada have two standard-setters separately for private and public sector, they implement effective monitoring system by sharing the same oversight body.
We did not particularly find any notable relationships between standard-setting bodies of public and private sector in the U.K., France and South Korea. However, in the U.K.
and France, we found that the terms of reference and certain regulations require members from standard-setting bodies for private sector to take part in the standard-setting activities for public sector.

4. Proposal for the Future Form of Standard Setting for Public Sector in Japan

(1) Structure of Standards
A detailed review of contents of public sector accounting standards is out of the scope of this report; however, since the structure of standards can affect the approach taken to set the standards, JICPA firstly reviewed the possible structures of public sector accounting standards.

There are three structures that Japan can consider in setting accounting standards: that is,

(i) Have a single set of standards applicable both to private and public sector entities

(ii) Have a single set of standards solely for public sector that would be different from those for private sector,

(iii) Have two or more sets of public sector accounting standards, each for the different types of public sector entities (e.g., national and local governments).

Above (i) would be less realistic in Japan, as it would be difficult to gather qualified experts who have extensive knowledge and experience both in private and public sector. Considering that there are particular issues to be considered for different types of public sector entities, JICPA does not hereby conclude which one of the two, (ii) or (iii) above, would be appropriate. However, JICPA is of the view that extremely fragmented standards that we currently see in Japan for different types of public sector entities is inefficient, and would make it difficult for the standard setters to maintain consistency between standards.

(2) Advantages of having a single standard-setter for public sector

JICPA proposes to have a ‘single’ standard-setter for public sector accounting standards from the following reasons.
(i) By having a single standard-setter, all stakeholders, including preparers (e.g., government officials) and users of financial statements, as well as auditors and inspectors can gather together and concentrate their human and financial resources to create high quality accounting standards for public sector.

(ii) Having a single standard-setter jointly monitored by both national and local governments, appropriate balance of power would be maintained without having too much influence from particular stakeholders.

(iii) It would be easier to maintain consistency between standards, even when there are two or more sets of standards to be set by a single standard-setter.

(iv) A single standard-setter would make it easier to have close relationship with the standard-setter for private sector entities, and to participate in the international discussion of public sector accounting standards.

(3) What would be required for the Standard-Setting Body?

JICPA believes that a standard-setting body would need to meet following six requirements, namely, (i) Independence, (ii) Expertise, (iii) Legitimacy, (iv) Due Process, (v) Transparency and Governance, and (vi) Financial Basis.

(i) Independence

An accounting standard-setter should not be controlled by any particular stakeholders and should also be independent in appearance. In particular, since public sector accounting standards are set to regulate preparers of financial statements, i.e., public sector entities, the standard-setter should be independent from those public sector preparers both in fact and in appearance.

Independence of standard-setter may be influenced by the independence of members in a board which has an authority to set the standards. Therefore, in the selection of members for the board, the membership balance would need to be considered to ensure that the board would be fairly balanced in terms of the points of view represented, without undue influence by the organizations that the members belong to. In this respect, we propose that an independent nominating committee, separated from the standard-setting body, appoints members, or a regulation designates the composition of members with the nomination of government members by related governmental organizations.
(ii) Expertise
We believe that a standard-setting board and its secretariat should have sufficient professional expertise. To develop competencies of members of the board, some members should serve full-time, and others be advised of a roughly estimated time of service for the board. To further develop competencies of technical staff serving for the board, a permanent secretariat should be formed with an appropriate number of paid and full-time staff both from public and private sectors.

(iii) Legitimacy
Accounting standards for public sector should be given legitimacy by being designated as authorized standards under certain laws or regulations. Legitimacy of the standards would also be enhanced, if the standard-setting body follows appropriate due process to enable stakeholders to participate in the standard-setting.

(iv) Due Process (Stakeholders’ Participation)
Accounting standard-setting would require broad and balanced stakeholder participation. Members should not act as representatives of their nominating organizations, as they are expected to make the best use of their individual knowledge and experience independently.

(v) Transparency and Governance
Transparency would particularly need to be secured in regard to independence and the due process stated above. (i) As for independence, a standard-setter should ensure that the membership of standard-setting board is fairly selected in accordance with the prescribed selection rules. It is also essential that the transparency be maintained regarding whether the standard-setter is independent of the organizations that provide funds. As for the due process, minutes of the meetings should be made available to the public in principle. In addition, a governing body (bodies) of the standard-setter should monitor whether or not the independence and the due process requirements are appropriately fulfilled by the standard-setter.

(vi) Financial Basis
In order to secure sound financial basis for standard setting activities, fund raising
from governmental organizations should be explored. But if funding is concentrated from a particular organization(s), it could have undue influence on standard-setting activities (or the independence of the standard-setter may be threatened). Therefore, we propose that fixed amounts of funds be given to the standard-setting body annually by several organizations, including the Ministries of Finance or the Ministry of Internal Affairs and Communications, or by local governments.

(4) Proposed structure for setting public sector accounting standards

We propose following structure for accounting standard-setting process for public sector in Japan.

Standard-setting process and the operation of standard-setting board (the Board) should be independent of national or local governments. Governments only grant authority (*2) of accounting standards issued (*1) by the Board.

Governments fund and monitor the process and the operation the Board, and they should not give directions to the Board with regard to its standard-setting (*3). Government officials’ involvement in the standard-setting process would need to be limited, so that their participation will fall within the scope of the due process.

Also, a broad range of participants from users, preparers and auditors of financial reports (*5), in addition to academics or accounting experts in accounting standards are expected in the process of standard setting.

Governing body can check the independence of the members of the Board and whether appropriate stakeholder participation is maintained, by monitoring the selection process and the due process followed by the Board (*4).
A standing secretariat formed within the standard setting body can improve research and development activities necessary for standard-setting. A standing secretariat is expected to accumulate ample knowledge for standard-setting (*6).
Dear colleagues,

Please find below the responses of the Treasury of Republic of Latvia to the specific questions of the public consultation on the Future Governance of the International Public Sector Accounting Standards Board (IPSASB).

**Question 1:** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB?  
- YES

If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees? NO  
b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC? NO  
c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies? YES  
d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? YES  
   If so, please describe.

Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC (option b) could be short term solution only. The best approach would be reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies with essential worldwide public sector professionals representation, ensuring real legitimacy of the IPSASB for public sector.

**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed? Partly, we are not sure, that the proposed remit will result in real legitimacy of the IPSASB by appropriate serving to the public interests.

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented? Partly, please, see above.

**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented? Partly, please, see above.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

Best regards,

Gunta Medne  
Deputy Treasurer  
Treasury of the Republic of Latvia  
Smilšu ielā 1, Rīga, LV-1919, Latvia  
Phone: + 371 67094222  
Fax: + 371 67094220  
E-mail: Gunta.Medne@kase.gov.lv
Subject: Public consultation on the International Public Sector Accounting Standards Board (IPSASB) Governance Review

Dear Mr Gurría,

On behalf of the European Court of Auditors, I have pleasure in submitting our response to the above consultation.

Yours sincerely

Vitor CALDEIRA

Annex: ECA response to the consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB)
ECA response to the consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB)

Question 1

Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? The ECA agrees that it is desirable to strengthen these arrangements.

If so, do you favor:

a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees? This does not seem to be a feasible option. As indicated in page 16 of the consultation paper, the IFRS Foundation considered this possibility in its most recent Trustee’s strategy review in February 2012, but “ruled it out for the time being as a majority of respondents preferred that the IASB continue in the short-term to focus on private sector standard setting”.

b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC? This would be, on the basis of the background presented in the consultation paper, the best available option.

c) Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies? Comparing the potential advantages of this option, with the numerous and serious practical challenges involved, as set out on page 17 of the consultation paper, the Court does not consider this to be a realistic option.

d) Another approach, including some combination or sequenced implementation (e.g. short-term/long-term approaches) of the above options? If so, please describe N/A

Question 2

Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Yes

Are there other issues that should be addressed? Main issues are addressed.

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1 Please note that expanding the MG and PIOB mandate to include the oversight of the IPSASB has been considered and declined by the MG, as explained in section IV.
Question 3

_Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B?_ Yes. However, the proposal should be more concrete when deciding on the status of the organisations and institutions involved (i.e. as observers or full members). The ECA notes that INTOSAI, the World Bank, the IMF and the OECD are all represented in the committee running the consultation exercise and would wish to see these bodies at the core of the future monitoring body.

_Are there any other institutions or stakeholders who should be represented?_ See above.

Question 4

_Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B?_ Yes.

_In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?_ The ECA considers that some cross representation from the IFAC Public Interest Oversight Board would be appropriate.

Question 5

_Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations?_ If so, please describe.

No.
Consultation Document on the Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

**Question 1:** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

Agreed.

NAO Malta favours option b, i.e. establish separate monitoring and oversight boards for the IPSASB, whilst remaining under the auspices of IFAC since it is of the opinion that the IPSASB merits separate monitoring and oversight. NAO opines that the convergence between IFRS and IPSAS is to be maintained and enhanced, however, both the private and public sectors have their own peculiarities which require specific guidance.

Thus, the distinction between the two bodies is important because of sector specific issues. However, NAO opines that communication between the two bodies is to be formalised and undertaken on a regular basis so that there is an exchange of competencies and experience.

**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Agreed. For clarity’s sake, I would add an additional item (iv) that would be worded as follows: (iv) ensure appropriate consultation and transparency in the entire standard setting process, especially in the case of the development and approval of new standards.

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

Agreed. Additionally, one may include as a subset of citizens, representatives of civil society and the media as observers. One may perhaps also include a member of the Monitoring Board of the IASB to ensure that there is convergence between IFRS and IPSAS and to transmit the competencies and experience of the IASB monitoring body.
**Question 4:** Do you agree with the proposed composition of the *IPSASB oversight body* in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Members of the legal profession with possibly an accounting background may be included to ensure that a due process is in place to regulate the accounting of complex legal obligations entered into by governments.

A small number of representatives from Statistics Offices around the world could also be included in order to ensure that a sound framework exists for the preparation of Government financial reports.

Representatives from anti-corruption agencies could also be invited as observers to ensure that accurate and reliable financial reporting acts as a deterrent to fraud and corruption.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

NAO Malta opines that one of the functions of the monitoring and oversight bodies is to provide strategic direction to the IPSASB such as encouraging the latter to provide guidance on how to manage transitions from cash based accounting to accrual accounting and how to tackle consolidation of the financial statements of Government Ministries and Departments prepared in accordance with IPSAS and financial statements of public sector entities prepared under IFRS.

Moreover, the paper is to distinguish clearly between the roles of the monitoring and oversight bodies of IPSASB.
4 April 2014

The International Public Sector Accounting Standards Board Governance Review Group
Organisation for Economic Co-operation and Development
2, rue André Pascal
75775 PARIS Cedex 16
France

Submitted via email: IPSASB@oecd.org

Dear Chairs of the Governance Review Group

The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

The External Reporting Board (XRB) of New Zealand welcomes the release of the consultation paper and thanks the Governance Review Group for the opportunity to comment on the future governance of the IPSASB.

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand.

The XRB has recently established a new Accounting Standards Framework based on a multi-sector, multi-standards approach. For-profit entities in New Zealand have, since 2005-2007, been using standards that are effectively International Financial Reporting Standards (IFRS). Public benefit entities\(^1\) now report using PBE Standards which are based on International Public Sector Accounting Standards (IPSAS). The issues surrounding the governance and oversight of IPSASB is therefore of great interest to the XRB. We think it will also be important for many other jurisdictions that have adopted, or are considering the adoption of IPSAS.

Oversight and Monitoring of IPSASB

We commend the IPSASB and International Federation of Accountants (IFAC) on the positive steps that they have undertaken in recent years to strengthen the membership nomination process for IPSASB and to consult on IPSASB’s work programme. We also commend IPSASB for following a structured and transparent due process in the development of its standards, notwithstanding the absence of any current monitoring or oversight structure. We further commend IFAC for providing the considerable financial support to IPSASB while giving it a high degree of autonomy to carry out its work.

\(^1\) Public benefit entities comprise public sector entities and not-for-profit entities. Public sector public benefit entities will apply PBE Standards from 1 July 2014, and not-for-profit public benefit entities will apply these standards from 1 July 2015.
Notwithstanding the above, independent oversight of the IPSASB is critical to protect it from undue influence, or the appearance of undue influence, from specific stakeholders or funders. Formal oversight of IPSASB is also important and necessary for the IPSASB to be viewed as a credible standard-setter of high quality, conceptually coherent accounting standards. This may also encourage more widespread adoption of IPSASs.

In our previous comments\(^2\) to the Monitoring Group and Public Interest Oversight Board (PIOB), we recommended that the IPSASB come under the oversight of the PIOB because we considered this to be the most cost-effective option. As this is no longer considered by the Review Group to be a viable option, we recommend that a separate monitoring and oversight body for IPSASB be set up but that it remains under the auspices of IFAC (that is, Option 2 as proposed in the consultation paper). We consider this to be the most viable option in the short term based on the practical considerations of speed, cost and availability of funding. This does not rule out moving to the more ideal position, in the long term, for the IPSASB to come under the scope and oversight of a completely independent body (such as the IFRS Foundation) to ensure a single governance body and a single standard setting structure for both the public and private sectors.

**Funding**

We note that the bulk of funding for IPSASB is currently from IFAC and that this reflects a significant contribution from the accounting profession. We appreciate that in the short term, funding an oversight structure for IPSASB may be difficult without the continuing support from IFAC. This is another reason why we think Option 2 is preferable in the short term. Concerns about independence are mitigated by IPSASB’s own due processes that are transparent and are intended to safeguard its independence.

Ideally, in the long term, the funding of IPSASB and any future monitoring or oversight boards should be independent of the profession, specific stakeholders or funders to ensure the credibility of the work of those bodies and to ensure that the funding base is sustainable in the long term. In this regard, we strongly recommend that the Review Group and IFAC address the issue of funding and actively seek alternative means of funding that is broad-based, diversified, sustainable and stable, and independent of government influence.

Our responses to the specific questions in the consultation paper are set out in the attached Appendix.

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\(^2\) As set out in our submission on the Public Consultation on the Governance of the Monitoring Group, the PIOB and the Standard Setting Boards and Compliance Advisory Panel Operating under the Auspices of IFAC and the PIOB Work Program 2012 and Beyond, accessible on: http://xrb.govt.nz/Site/Financial_Reportinb_Strategy/Submissions_by_XRB.aspx
If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely

[Signature]

Graeme Mitchell
Chairman
External Reporting Board
Appendix 1: Responses to Questions

**Question 1:**
Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

- Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
- Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
- Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
- Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

We agree that there is a need to strengthen the monitoring and oversight of the IPSASB. From a public interest perspective, having independent monitoring and oversight bodies is valuable and adds credibility to the whole standard-setting process.

We recommend, based on the practical considerations of speed, cost and availability of funding, that Option 2 be adopted, that is, a separate monitoring and oversight body for IPSASB be set up while it remains under the auspices of IFAC. We consider this to be the most practical short term option given that it will be difficult in the short term to change, in particular, funding models and set up a separate structure outside IFAC.

In the long-term, we would favour a fully independent standard-setting model completely outside the IFAC structure, not because we are concerned with any fundamental bias in the manner in which the standard-setting boards operate, but because it may help remove any perception that IPSASB lacks independence operating under IFAC.

We note that the IFRS Foundation is reluctant to take on the monitoring /oversight of IPSASB at the current time. In our view, Option 2 does not rule out, in the longer term, the ideal position (as set out under Option 1) for IPSASB to come under the scope and oversight of the IFRS Foundation or a similar body or structure to ensure a single governance body and standard setting structure for both the public and private sectors. We think this is the ideal long term goal because having separate monitoring and oversight boards for IPSASB may potentially result in greater and more entrenched differences in the concepts and standards when there are no good sector-specific reasons to differ.

In this regard, we consider that the Review Group and IFAC need to address IPSASB’s long term funding structure. We strongly recommend that IFAC, the Review Group and the monitoring and oversight bodies (when set up) work towards finding alternative funding methods and sources that are broad-based, diversified, stable, sustainable and independent to support the ideal long term structure (see our further comment on funding under Question 5).

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3 Please note that expanding the MG and PIOB mandate to include the oversight of the IPSASB has been considered and declined by the MG, as explained in section IV.
We are not in favour of Option 3 as we think that practically, it will not be possible to set it up in a timely fashion and finding funders that would not compromise independence for the structure is likely to be a major difficulty at this point in time.

**Question 2:**

*Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?*

We agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A.

We consider that it is important that the roles of the monitoring and oversight body(ies) are made clear and separate from IPSASB (and from each other, if separate bodies are set up) to ensure that the independence of IPSASB as a standard setter is maintained. It is also important that the roles and responsibilities of monitoring and oversight body(ies) are clearly specified and communicated to stakeholders.

In addition, we strongly support the oversight body establishing a Consultative Advisory Group (CAG) to provide technical advice to IPSASB. It is important that the IPSASB has a well-functioning CAG that is well represented geographically and by knowledgeable public sector members to support its activities.

**Question 3:**

*Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?*

We agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B.

We consider that the monitoring body’s membership should have a good balance of stakeholders from international organisations that represent the public interest and the wider global interest. We consider it important that the monitoring body’s membership include national monitoring bodies responsible for overseeing the work of standard setting for their domestic public sector institutions.

Consideration could be given to the establishment of one or two rotating membership positions (or observer positions) to allow greater representation and greater perspectives to be brought to the monitoring body. This may also provide other institutions with the opportunity to develop the necessary skills to be potential future members of the monitoring body. These could include organisations from emerging economies and/or regional standard-setting bodies.

Once the structure is agreed upon, we consider that the process for how the members are nominated and appointed, the maximum number of members, the criteria for the skills, the criteria for representation, the maximum term of appointment/reappointment (including for any rotating members) and funding should be clearly set out and made transparent.
We agree with the proposed composition of the IPSASB oversight body and with the focus on those members having a public sector background as set out in section IV, paragraph B.

The proposed background of oversight body members as set out in section IV, paragraph B should ensure that those members would include members with the necessary skills or experience (or understanding, at a high level) of public sector specific accounting, assurance ethical and educational issues.

In our view, the functions of an oversight body would include, for example:

- Overseeing the processes for appointing members of the body subject to oversight to ensure that the appointment processes are open, transparent, independent and the members have the necessary skills for the job;

- Reviewing the outcomes of the body and the performance of its members to ensure that due process has been followed and the body and its members comply with their respective objectives/mandates and terms of reference;

- Reviewing and approving the processes for identifying projects for inclusion on the agenda of the body subject to oversight to ensure that the agenda is responsive to the public interest and due consideration is given to the views of stakeholders;

- Reviewing and approving the processes for developing standards and other documents to ensure, among other things, that the process is transparent, there is appropriate balancing of conflicting views and that there is independence in decision-making; and

- Reviewing and approving the accountability mechanisms to ensure that the body and its members are accountable to its oversight body and to its stakeholders.

An important aspect of oversight is to ensure that due process has been properly carried out. In this respect, matters like transparency of the due process and independence are critical. We think there is a need to include in the oversight body’s mandate a reference to ensuring that the IPSAB carries out its work in an independent and transparent manner. While being responsive to public interest is important, to engender confidence and ensure that the standards are high quality, the IPSASB needs to be independent and be transparent in the way that it carries out its work.

Similar to the comment on the monitoring board, once the structure is agreed upon, we consider that the process for how the members are nominated and appointed, the maximum number of members, the criteria for the skills, the criteria for representation, the maximum term of appointment/reappointment (including for any rotating members) and funding should be clearly set out and made transparent.
Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

We consider that the Review Group will need to address the critical issue of funding before presenting its final recommendations.

We recommend that the funding provide for an independent, full-time chair for the IPSASB. We consider that this is the appropriate time to consider this issue given that the term of the current chair of IPSASB is coming to an end in 2015.

We agree that it might not be realistic in the short-term to attempt to alter the funding structure of IPSASB in any substantial fashion. However, we consider that the Review Group, IFAC and the proposed monitoring and oversight bodies (when set up) need to address IPSASB’s long term funding structure. We strongly recommend that IFAC, the Review Group and the proposed monitoring and oversight bodies (when set up) work towards finding alternative funding methods and sources for the ideal long term structure. Such funding needs to be more broad-based, diversified, stable and sustainable and ensure independence, especially from government influence. It should not rely merely on IFAC and/or one or two other contributors.

We would support the Review Group/IFAC/the proposed monitoring body putting in place a funding structure for the oversight body and for IPSASB that is similar to that of the IFRS Foundation funding. We agree with the principles underlying the funding structure of the IFRS Foundation as it is more likely to maintain the independence of the oversight body and the IPSASB and provide more sustainable funding in the long run.
29 April 2014

The International Public Sector Accounting Standards Board Governance Review Group
Organisation for Economic Co-operation and Development
2, rue André Pascal
75775 Paris Cedex 16
France

Submitted via email: IPSASB@oecd.org

Dear Chairs of the Governance Review Group

The future governance of the International Public Sector Accounting Standards Board (IPSASB)

The Office of the Auditor-General of New Zealand welcomes the opportunity to comment on the future governance of the IPSASB.

With effect from 1 July 2014, public sector accounting standards in New Zealand will be based on IPSAS, and so we have a strong interest in the IPSASB producing high quality accounting standards for the public sector without undue influence from particular funders or other interested parties.

We see that the future governance of the IPSASB is very important for the effective operation of the IPSASB and the ongoing credibility of the IPSASB as an international standard setter. Our overall view is that the IPSASB should remain under the auspices of IFAC and, in fact, we see no other option in the short term. We therefore favour option 2 in the consultation paper.

We do not rule out the possibility of the IPSASB having a different governance structure in the longer term, but we currently don’t favour either option 1 or option 3 in the consultative paper.

Our responses to the specific questions in the consultation paper are set out in the attached Appendix.

If you have any queries or require clarification of any matters, please contact Greg Schollum (greg.schollum@oag.govt.nz).

Yours sincerely

[Signature]

Lyn Provost
Controller and Auditor-General
Appendix 1: Responses to Questions

Question 1:

Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g. short-term/long-term approaches) of the above options? If so, please describe.

We agree that there is a need to strengthen the monitoring and oversight of the IPSASB. From a public interest perspective, having independent monitoring and oversight bodies is valuable and adds credibility to the whole standard-setting process.

We recommend that Option 2 set out in section IV (option b above) be adopted. We consider this to be the most practical short term option given that it will be difficult in the short term to change funding models and set up a separate structure outside IFAC.

Question 2:

Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

We agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A.

We consider it is important that the roles of the monitoring and oversight body(ies) are made clear and separate from the IPSASB to ensure that the independence of the IPSASB as a standard setter is maintained. It is also important that there is clear communication with stakeholders about the roles of the various bodies.

In addition, while acknowledging the practical difficulties, we support the oversight body establishing a Consultative Advisory Group (CAG) to provide technical advice to the IPSASB.

Question 3:

Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

We agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B.

We think it’s important that the membership appropriately reflects the public interest and includes representation from national monitoring bodies responsible for overseeing the work of standard setting in their own jurisdictions.

Question 4:

Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

We agree with the proposed composition of the IPSASB oversight body as set out in section IV, paragraph B, particularly those members having a public sector background.
The proposed background of oversight body members as set out in section IV, paragraph B should ensure that those members would include members with the necessary skills or experience (or understanding, at a high level) of public sector specific accounting, assurance, ethical and educational issues.

Ensuring that due process has been properly carried out is an important component of effective oversight. In this respect, matters like transparency of the due process and independence are critical. We think there is a need to include in the oversight body’s mandate a reference to ensuring that the IPSASB carries out its work in an independent and transparent manner.

**Question 5:**

*Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.*

We consider that the Review Group will need to address suitability of the long-term funding model for the IPSASB.

We recommend that IFAC, the Review Group and the proposed monitoring and oversight bodies work towards finding sustainable alternative funding methods and sources. Such funding needs to be broad-based, consistent and sustainable and ensure independence, especially from government influence. It should not rely merely on IFAC and/or one or two other contributors.
17 April 2014

Members
International Public Sector Accounting Standards Board Governance Review Group
IPSASB@oecd.org.

Dear Sirs

IPSASB Governance Review

The New Zealand Treasury (“NZ Treasury”) welcomes the formation of the IPSASB Governance Review Group (“the Review Group”) to propose future governance and oversight arrangements for the IPSASB. The NZ Treasury agrees there is a need to strengthen the monitoring and oversight of the IPSASB, not just to strengthen the international acceptance and adoption of IPSAS, but also to provide assurance over the resilience of the process for development of international public sector accounting practice.

You have noted that concerns about the governance and oversight of the IPSASB have been cited by national authorities for not adopting IPSASs. This indeed was one of the issues that New Zealand needed to work through as it moved to its multi-sector accounting framework, whereby public benefit entities use IPSAS based financial statements. New Zealand’s approved financial reporting framework, approved in March 2012, notes:

“The major historical concerns about IPSAS have been the lack of a conceptual framework and the lack of independent governance arrangements for IPSASB ... The XRB considers that these concerns are being addressed by both IPSASB and the International Federation of Accountants (IFAC – IPSASB’s parent body). The progress on these issues is encouraging and the momentum relatively comforting compared to the position two to three years ago. There remains, however, some on-going concern that, despite the positive “direction of travel”, the governance issues have not yet been fully resolved. Further, the IPSASB conceptual framework is still under development, although again the indications are positive.”

New Zealand took the view that IPSAS were of sufficiently high standard, and the directions shown by developments in the Conceptual Framework were sufficiently positive for IPSAS to be used as the basis for New Zealand Public Sector standards. However, from the NZ Treasury’s perspective the progress on IPSASB governance and oversight in the two years since that document was written has been disappointing. We therefore agree with your noted concerns.
In addition to concerns over credibility, the NZ Treasury also believes that the process for developing international public sector accounting practice needs to be more resilient, particularly as adoption of the standards are increasing. By resilience we are referring to:

- **Robustness of process.** So that queries as to the quality of the standards can stand up to scrutiny, and so that accounting practice evolves in response to changing demand.
- **Assurance over funding.** So that the resources are available to ensure delivery of the needed volume and quality of standards, and that resourcing is sufficiently widely spread, so that IPSASB is resilient to demands from special interests.
- **Appropriate capability.** So that the full diversity of views is taken into account in the process of developing generally accepted positions, and the IPSASB can continue to access the necessary calibre of personnel to move through that journey.
- **Responsiveness.** So that feedback loops operate throughout the process to encourage high quality performance.

In NZ Treasury’s view, the IPSASB has performed extraordinarily well against the above attributes to date. We recommend that improved governance and oversight would be designed to encourage the IPSASB to sustain, and improve, their performance against these attributes. The governance and oversight arrangements would then fulfil the desirable function of providing assurance to all the IPSASB’s stakeholders, including ourselves.

That will require individuals responsible for governance and oversight to be highly committed and dedicated to fiscal transparency and the public interest. Looking at the three options proposed, we do not see that level of commitment and dedication coming from the IFRS Foundation’s Monitoring Board and Trustees, who have twice to our knowledge considered whether their mandate should extend to public sector reporting and rejected that view. On that basis, we reject Option 1.

We observe significant risks for poorer governance and oversight if IPSASB was currently to be established outside of IFAC with its own monitoring and oversight bodies as Option 3 proposes, and therefore also reject this approach. Consequently, we favour Option 2 in the paper which proposes to establish separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC.

We note that the selection of Option 2) does not preclude Option 1) or Option 3) from being developed in the future as either the IFRS Trustees, or other bodies outside of IFAC develop the necessary enthusiasm for high quality public sector financial reporting.

As of now however, we do not perceive the level of external enthusiasm necessary to pursue Options 1) or 3).

As we have noted above, the NZ Treasury believes improved governance and oversight should provide assurance that the process for developing international public sector accounting practice is resilient. We therefore agree, as the Review Group has
proposed, that the remit of the IPSASB’s monitoring and oversight should aim to ensure that the public interest is served by the standard setting activities, and that the agreed standard setting strategy and governance arrangements are implemented.

However, while this is necessary, we do not think that this is sufficient. In particular, to ensure the attributes we have identified above are met, we think that the governance and oversight function needs to include a fundraising role. Such a role should not be carried out by the standard setter as it may affect it from operating independently in the public interest. In this respect the governance and oversight body needs to be a champion for the IPSASB and the public interest.

As will be evident from our comments above, we consider above all that, the commitment and dedication of people enthused by safeguarding the public interest and improving international public sector accounting practice will be critical to the success of improved monitoring and oversight. This is not a role for uninterested representatives of organisations and institutions who do not put a high priority on those goals. We would therefore encourage the Review Group to think more broadly and innovatively about the composition of those to be appointed to IPSASB governance and oversight role. Access, and ability to persuade, the institutions and organisations mentioned in the consultation paper, may be more important than representation from them.

Further, we do not see at this stage a necessity for having separate monitoring and oversight bodies. Those roles can be sensibly combined, at least at this stage.

We trust the comments above are of assistance. We are happy for our comments to be made publicly available, and would urge the Review Group to make all comments received publicly available, unless the respondent has requested confidentiality, in accordance with the norms of openness and transparency for consultations of this type. We wish the Review Group well in its future deliberations and representations to improve the governance and oversight of the IPSASB.

Yours sincerely

Nicola Haslam
Manager, Fiscal Reporting
New Zealand Treasury
Dear Laura Wilker,

THE FUTURE OF GOVERNANCE OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB)

Association of National Accountants of Nigeria is very pleased to comment on the document issued for public consultation on the above subject.

Association of National Accountants of Nigeria (ANAN) is a statutorily recognised professional accountancy body in Nigeria. The body is charged, among other things, with the duty of advancing the science of accountancy.

The Association was formed on 1st January 1979 and operates under the ANAN Act 76, Cap A26 of 1993 (LFN2004), working in public interest. The Association regulates its practicing and non-practicing members, and is overseen by the Financial Reporting Council of Nigeria.

ANAN members are more than 21,000, they are either FCNA, or CNA and are found in business, practice, academia, and the public sector in all the states of Nigeria and overseas. The members provide high professional services to various users of their services.

ANAN is an Associate of the International Federation of Accountants (IFAC), member of the Association of Accountancy Bodies in West Africa (ABWA), member of the International Association for Accounting Education & Research (IAAER) and member of the Pan African Federation of Accountants (PAFA).

The Association’s responses to the Specific Questions to consider are as set out below:
Q1  Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB?

Yes; from the historical background as espoused in the consultation document, it is desirable to strengthen the oversight board.

For independence of action by the oversight board “Separate monitoring and oversight boards for the IPSASB while it remains under the auspices of the IFAC is desirable”

Q2  Do you agree with the proposed remit for the IPSASB monitoring and oversight body (ies) in Section IV, paragraph A? Are there other issues that should be addressed?

ANAN agrees with the proposed remit for the IPSASB monitoring and oversight body (ies) `Because it will allow the oversight board to take responsibility for their decisions

Q3  Do you agree with the proposed composition of the IPSASB in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

The composition seemed adequate; representing the likely stakeholders in the public interest entities. There are no other stakeholders considered to have been left out.

Q4  Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B?

Yes; we agree with the proposed composition of the oversight body as contained in the proposal.

We hope you will find the above useful. If you would like to discuss any of the above further, please contact the undersigned who will be very pleased to address your area of concern.

Yours faithfully,

ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA(ANAN)
SUNDAY A EKUNE,B Sc.(Hons.)M.Sc. MIoD, FCNA.
Registrar/Chief Executive.
Members of the Group
THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD GOVERNANCE REVIEW GROUP

REF: Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

Dear Members of the Group,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the Consultation Paper “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)”

This reply summarizes the views of different member countries of the IAA, according to the following due process:

Due process:
The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

Gustavo Gil Gil
PRESIDENT
Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)”

We have answered the five questions of the document in accordance with the provided instructions. Please see our answers and related comments below.

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<th>Question 1</th>
<th>Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:</th>
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<td></td>
<td>Indeed the AIC expects that efforts to strengthen the monitoring of professional standards for the government sector and the hierarchical dependence of those who issue these standards should be continued.</td>
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<td>Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?</td>
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<td>b.</td>
<td>Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?</td>
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<td>c.</td>
<td>Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?</td>
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<td>d.</td>
<td>Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.</td>
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The AIC expects this alternative (Alternative C) is the most adequate, letting IPSASB continue its work as an autonomous body.
Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Yes, we agree.

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<th>Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?</th>
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<td>Yes, we agree.</td>
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<th>Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?</th>
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<td>Yes, we agree.</td>
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<th>Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.</th>
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<tr>
<td>In the future the International Standards of Accounting for the Governmental Sector should be developed and strengthened as being the only rules for this sector and also for all non-profit entities. This proposal is also based on the fact that the IFRS do not address the specific standards for non-profit entities.</td>
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To the IPSASB Governance Review Group,

On behalf of the United Nations System Task Force on Accounting Standards (TFAS), we are pleased to provide you with our response to the consultation paper on the Future Governance of the IPSASB.

We appreciate time and effort invested by the Review Group into developing this consultation paper and the opportunity to provide our views on it.

Having reviewed the paper we found that it comprised a comprehensive review of issues with due attention to timeliness, cost and relevance of proposed solutions to address absence of the oversight body of the IPSASB.

It was noted that while describing composition of the IPSAS Board, including its members and observers, the United Nations and the UNDP (which collectively can be referred to as the United Nations system organizations) were not acknowledged as observers of the Board (page 2, first paragraph of the consultation paper). These organizations' role is rather unique as they are the only preparers of IPSAS compliant financial statements which partake in the work of the Board and therefore it is imperative that their observer status with the IPSAS is acknowledged in the paper.

The paper further identifies the following groups as main IPSASB stakeholders which should be drawn upon to form monitoring and oversight bodies to provide an oversight function for the IPSAS Board:

− Primary resource providers and users of the financial information including organizations representing the interests of Parliaments, supreme audit institutions, and citizens themselves;

− Secondary resource providers and users of the financial information, including organizations representing the interest of investors in sovereign assets such as securities and other financial sector regulators;

− National monitoring bodies responsible for overseeing the work of standard setting for their domestic public sector institutions; and

− International institutions responsible for setting and promoting standards for government financial reporting, which can also be secondary resource providers in some cases.

The financial statement preparers are not included in any IPSAS stakeholder group and their future role in work of the 'redesigned' IPSASB (with an oversight, monitoring and advisory bodies) is not acknowledged in the consultation paper. Many financial reporting standard-setters have a very clear ongoing relationship with financial statement preparers. For example, FASB regularly consults financial statement preparers to gather feedback on costs required to provide the information their stakeholders seek while the IASB meets with representatives of companies that use IFRSs at meetings known as the
Global Preparers Forum, which are normally held three times a year. The purpose of the Global Preparers Forum is to provide input into concepts and proposals that the IASB is developing and offer advice to the IASB on the practical implications of its intended proposals for preparers of financial statements. These meetings are open to public observation and are also webcast. IPSASB, on the other hand, does not seek information on costs of IPSAS implementation or practical implications of its proposals for financial statement preparers. In addition to the UN system organizations’ participation in the IPSASB meetings as observers, the role of financial statements preparers is limited to providing feedback on the Board's proposals released for public comment. However any comments about practical difficulties of implementing a proposed standard are usually not thoroughly reviewed by the Board before approving the ED and issuing a final IPSAS standard.

As the Board attempts to promote adoption of IPSAS standards worldwide, as acknowledged on page ii of the consultation paper, the issue summarized above needs to be acknowledged and further considered. While we realize that the scope of this consultation paper is somewhat limited to proposing solutions to address absence of the oversight of the IPSASB, we strongly encourage the Review Group to at least acknowledge the importance of an ongoing interaction between the "redesigned" IPSASB and the financial statements preparers.

To provide feedback on the three proposed options to establish an oversight mechanism for the IPSASB (pages 15-17 of the consultation paper) the TFAS strongly objects to option 1 and considers options 2 and 3 as plausible.

Thank you for your time and attention to this feedback. We look forward to the Review Group’s final recommendations and hope that it will incorporate comments included in this communication.

Kind regards,

Dinara Alieva

Financial Analyst
System-wide IPSAS Project
Chief Executives Board for Coordination
United Nations System

304 East 45th Street, FF-726
New York, NY 10017, USA
+1-917-367-9738
alievd@un.org

www.unsceb.org
Dear Sir/ Madam,

ICAS response to consultation - The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

ICAS (the Institute of Chartered Accountants of Scotland) is a professional body for more than 20,000 Chartered Accountants across the UK and internationally. We are an educator, examiner, regulator and thought leader. Our Public Sector Committee is a broad based committee of ICAS members with representation from across the public sector. ICAS’s Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first.

We welcome the opportunity to comment on the International Public Sector Accounting Standards Board Governance Review Group’s consultation on the Future Governance of IPSASB. We agree that there is a need to strengthen the governance of IPSASB. Overall, our view is that there is insufficient evidence presented in the consultation paper to select a preferred option.

It is essential to the successful implementation of a governance structure to achieve the necessary level of stakeholder engagement and have in place adequate funding arrangements. We suggest that the International Review Group gathers further evidence from stakeholders, including various governments and bodies such as the European Commission, of what model is best perceived to meet their needs so that consultees can take this into consideration in formulating a response.

Secondly, evidence needs to be gathered from an evaluation of the existing governance models rather than just adopting what is used elsewhere. We would like to see this evaluation include the key principles and objectives of what an ideal governance structure should achieve. For example, option 2 offers a dual monitoring structure with the Monitoring Group and the Public Interest Oversight Board. This structure may offer greater political credibility but it is also likely to be more costly than a single structure so we also need to consider how efficient and effective existing models are in practice and who will pay.

Thirdly, a crucial decision making factor is the funding. Option 2 leverages existing funding arrangements but we need to consider if these are adequate to enable IPSASB to meet its objectives, strategy and future demands. For alternative governance models we need an answer as to how the funding gap will be addressed otherwise selecting an option will remain a theoretical exercise.

We suggest that a wider pool of funding should be investigated, such as at G20 level, to reduce the risk and perception of conflict of interests. International bodies with an interest in high quality, transparent financial reporting should also be considered as they are likely to have an incentive to support the development of high quality public sector public reporting standards. This may include the IMF, World Bank, OECD etc. amongst others.

A useful starting point would be to agree high level principles and objectives of what constitutes an appropriate governance structure. These should include (amongst others):

- A primary objective to achieve the best quality accounting standards
- Balanced representation and minimal political interference
- Independence
Public interest
Accountability
Transparency
Effective monitoring, challenge and oversight
Adequate funding and resource
Efficient use of funds
Maximising the ability to leverage existing expertise and minimising unnecessary duplication
Integration with private sector models on matters of commonality and to promote challenge, supported by sector expertise as appropriate
Minimum deviation - consistency should only be broken where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by the IASB.

Our view is that in the long term, the ideal model would be based on a single authoritative body for private and public sector accounting standards.

We appreciate the sense of urgency to strengthen the governance of IPSASB but would stress that a long term solution needs a comprehensive evaluation and a quick fix is not feasible nor will it necessarily achieve the desired outcomes.

In the context of an increasingly global economy and international markets where investors need comparability of financial information across the world, making public sector information more accessible and understandable can facilitate investment and benefit economies more widely. We stress the importance of getting the foundations of governance right, with adequate stakeholder support, to strengthen accounting standard setting at an international level and minimise the risk of national or regional divergence.

If you have any questions, we would be happy to discuss further.

Yours faithfully,

ALICE TELFER
Assistant Director Business Policy and Public Sector
ICAS
The Co-Chairs
IPSASB Governance Review Group

By email: IPSASB@oecd.org

Dear Co-Chairs,

Public consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on The Future Governance of the International Public Sector Accounting Standards Board (IPSASB).

General comments

The governance and oversight of IPSASB is of significant importance for many jurisdictions that have adopted or are considering the adoption of IPSASs. We share the widely-held view that it is important for the IPSASB to have public interest oversight, in order that entities adopting IPSASs are assured that the IPSASB is acting in the public interest and that its standards result from widespread and carefully considered feedback from constituents around the world.

We note that the IPSASB has been transparent and have sought public feedback on its work program and strategies, and also commend the IPSASB and IFAC for their efforts to strengthen the governance of the IPSASB over recent years. Creating an oversight regime is crucial for building the credibility of the Board as well as providing assurance that the IPSASB has the long-term capability and capacity to act independently and rigorously in its standard-setting activities. Therefore we see the establishment of an oversight body over the activities of the IPSASB as a matter of high and urgent priority.

We believe that option 2, setting up a separate monitoring and oversight board under the auspices of IFAC is a viable short term solution. With regards to a longer term solution, option 3 – setting up an independent monitoring and oversight board – would give more credibility to the IPSASB and avoid the Board being perceived as influenced by the private sector. An alternate longer term option that
the Review Group could explore would be for the IFRS Foundation Monitoring Board to provide oversight, but a separate IPSAS Board of Trustees be set up to oversee IPSASB’s activities i.e. the IPSASB Trustees and IPSASB to come under the oversight of the IFRS Foundation Monitoring Board.

In relation to the funding of the IPSASB, a broad-based, diverse and sustainable funding model is crucial to safeguard the Board’s independence, credibility and for it not to be perceived as unduly influenced by the profession or any government. We urge the Review Group and IFAC to address this issue of funding concurrently with the oversight of the IPSASB, as we believe that enhancing the Board’s standard-setting capacity could positively influence the adoption of IPSAS more broadly. A possible funding mechanism could be a non-voluntary levy system on jurisdictions (based on a nation’s GDP) and on international organizations such as the IMF and World Bank to ensure long-term commitment from the funders.

Please find our responses to the specific questions for consideration set out in the appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller Marqueś-Berger at (+49) 711 9881.

Yours faithfully

Ernst & Young Global Limited
Appendix: specific questions to consider:

**Question 1:** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

- a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
- b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
- c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
- d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

As discussed in the public consultation document, public interest oversight of the IPSASB has been lacking, and previous initiatives have not resolved this issue. We believe that this consultation is timely and the need to strengthen the monitoring and oversight of the IPSASB is of high priority for the following reasons:

- The credibility of the IPSASB as an independent standard-setter would be enhanced through public interest oversight.
- The lack of public interest oversight has been cited as one of the reasons by the European Commission for not adopting IPSAS in Europe. Whilst that’s not the only reason for non-adoption of IPSAS in the EU, the establishment of an enhanced governance and oversight arrangements over the Board would have a positive impact on the legitimacy of the Board.
- The resolution of the governance and oversight issues of the Board could result in even more widespread adoption of IPSAS.

As mentioned in our cover letter, option 2 would seem to be a feasible short term option. For the longer term, option 3 or the alternative option we presented above - operating under the IFRS Foundation Monitoring Board with a separate Board of Trustees relevant to the public sector to oversee the IPSASB - should be explored.

We note that in discussing the IPSASB Governance Review Group’s proposals during its meeting on 24-25 February 2014, the IFRS Advisory Council
reached broad consensus that it would not be feasible, at least in the short term, to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. However, the potential advantage of our proposed alternative would ensure the same due process and standard-setting structure for the IPSASB. We consider there to be no strong reasons why the private sector and public sector standard-setting organizations should not have similar due process and standard-setting arrangements, despite their different constituencies.

**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

We believe the remit of the monitoring and oversight bodies should also include:

► Review of the efficiency and effectiveness of the IPSASB
► Promoting the objective of adoption of accrual IPSAS
► Finding sustainable sources of funding for the IPSASB with the objective of safeguarding the Board’s independence and credibility

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests or stakeholders who should be represented?

We agree with the proposed composition of the IPSASB monitoring and oversight bodies, and emphasize that the public interest be adequately represented through a balanced mix of users, international institutions and national monitoring bodies. Furthermore, we emphasize the importance of membership from international organizations on the monitoring body such as the IMF, World Bank and OECD to represent the wider global interest.
Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

We have no other comments.
April 29 2014

The Chairs
The International Public Sector Accounting Standards Board Review Group
c/o Organization for Economic Co-operation and Development

Dear Review Group Members:

Please find attached the Public Interest Oversight Board comment letter to the Public consultation on the future governance of the International Public Sector Accounting Standards Board (IPSASB).

Best Regards,

Gonzalo Ramos
PIOB Secretary General
The Public Interest Oversight Board (PIOB) appreciates the opportunity to comment on the consultation paper “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)” by the International Public Sector Accounting Standards Board Governance Review Group. As the global independent oversight body that seeks to improve the quality and public interest focus of the international audit and assurance, ethics and education standards formulated by the IAASB, the IESBA and the IAESB Boards supported by the International Federation of Accountants, the PIOB’s work contributes to the transparency, credibility and high-quality of financial reporting.

The PIOB has been an active supporter of the need to strengthen the IPSASB governance structure. This is an urgent and indispensable measure to improve the integrity of public sector accounts and global financial stability. The credibility of public sector accounts rests on the existence of a credible, independent oversight structure that gives assurance on the quality and public interest responsiveness of IPSAS and can facilitate their adoption.

This comment letter is structured in 4 sections. Section One is a brief introduction to the PIOB and its work. Section Two refers to the need to strengthening the IPSASB governance structure. Section Three includes the PIOB specific responses to the questions in the Consultation Paper and Section Four, an overall PIOB Board conclusion over this consultation.

I. The PIOB

The PIOB’s mandate is “to increase the confidence of investors and others that the public interest activities of IFAC -including the setting of standards by the independent IFAC standard setting boards (SSBs) -are properly responsive to the public interest”. The SSBs under the PIOB’s oversight are the International Auditing

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1 “Fiscal Transparency, Accountability, and Risk”, Fiscal Affairs Department, International Monetary Fund, August 2012.
and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB). The IPSASB was left outside the PIOB’s mandate when the PIOB was established in 2005. In addition, the PIOB oversees the Compliance Advisory Panel and the Nominating Committee of IFAC.

The objective of PIOB oversight is to help ensure that international standards are fully responsive to the public interest (stakeholders’ needs) and of the highest possible quality.

The PIOB operates within a three-tier system constituted by three independent standard setting boards (the IAASB, the IESBA and the IAESB), and an independent oversight body (the PIOB), accountable to a monitoring body (the Monitoring Group). Within this context, the PIOB oversees the SSBs: (i) by reviewing and approving their strategies and work plans, with the right to ask for projects to be included if this is in the public interest; (ii) by directly observing meetings of the SSB and their Consultative Advisory Groups (CAGs), including oversight over SSBs and CAGs interactions and processes; and (iii) by overseeing nominations to SSBs and CAGs. Audit, assurance, ethics, and education standards can be published only after PIOB’s approval of due process and public interest responsiveness.

The PIOB discharges its responsibilities through a range of oversight procedures independently developed by the PIOB. The PIOB’s Oversight Methodology and Assurance Methodology (OAM) is risk-based and combines direct observations of SSBs and CAGs meetings with remote observations by phone or video conference. An oversight model is selected for each SSB and CAG from four oversight assurance models formalized by the PIOB, each with a different level of assurance. An oversight plan is developed for each SSB and CAG, CAP and Nominating Committee every year. All meetings observed, whether directly or remotely, are reported in writing. In addition, PIOB staff provides written briefing memos to PIOB observers and conducts extended review (ER) and limited review (LR) due process analyses of each standard or strategy developed by the SSBs.

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2 Details of the 7 steps that constitute the OAM are included in the PIOB’s Seventh Public Report, published in 2012, and can be consulted at http://ipiob.org/media/files/attach/ANNUAL_REPORT11.pdf.
Continuity and consistency of the oversight process is ensured (i) by the quarterly convening of PIOB meetings, when issues and concerns are discussed in closed sessions, as well as, separately and independently, with IFAC leadership and SSB and CAG Chairs, (ii) by linking access by PIOB members and staff to a data base containing all relevant information pertaining to each project under development in each SSB, including briefing memos by staff and observation memos by observers, and (iii) by staff monitoring of projects.

The responses to the consultation process launched by the PIOB in May 2012 on the “PIOB Work Program 2012 and Beyond” showed strong support for the PIOB’s oversight work and for the three-tier structure in place.

Quarterly updates are issued after each PIOB meeting, disclosing the full meeting agendas, summaries of its quarterly meetings with a full description of the decisions adopted, and an indication of the discussions held. In addition to its annual Public Report, the PIOB publishes on its website the annual oversight plans approved for each SSB, CAG and CAP. Further, the PIOB’s Public Reports include a separate section with the recommendations raised by the PIOB with the SSBs, CAGs, CAP and the Nominating Committee, and their status as of the date of the report.

II. PIOB considerations of IPSASB oversight

The PIOB has considered IPSASB oversight since its creation in 2005. Since 2011, the PIOB has discussed oversight of the IPSASB at several meetings. The IPSASB is the only SSB within IFAC that is not subject to independent oversight.

In 2011, IFAC consulted on two options to conduct IPSASB oversight, improve its governance and enhance the credibility of IPSAS: (i) using the existing PIOB structure, or (ii) setting up an ad-hoc body. This consultation showed an overwhelming support for a public interest oversight of IPSASB and for strengthening the IPSASB along the lines of the other SSBs, although responses were divided between the two options, the PIOB or a separate body.

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The PIOB discussed this consultation and decided “to stand ready to conduct IPSASB oversight”. It considered that the skills and expertise in the field of public interest oversight of standard setting it had developed over time could usefully be put to work for IPSASB oversight and might have constituted, at least provisionally, an immediate and cost effective solution.

However, in February 2013, a round table on IPSASB governance was held in New York, convened by the Monitoring Group and attended by the PIOB in full and other participants. The Monitoring Group decided that the MG and the PIOB were not the most appropriate structure to provide IPSASB with independent oversight.

**III. Responses to the questions in the Consultation Paper**

**Question 1:** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

The PIOB agrees that there is an urgent and strong need to strengthen the monitoring and oversight of the IPSASB. From our perspective, the following criteria should guide the assessment of possible options:

1. How best to enhance the credibility of IPSASB through independent oversight.

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4 As stated in the PIOB VII Public Report, Chapter IV, page 24.
2. How best to secure wide adoption of IPSAS by Governments in the absence of incentives.

a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees

IPSAS are largely the adaptation of IFRS to the public sector, so monitoring and oversight by the IFRS Foundation’s Monitoring Board and Trustees would be an appropriate alternative.

The main drawback of this option is that the IFRS Foundation has concluded against the IASB extending its mandate to public sector accounting standards, at least in the next few years. This would advise against considering this option as practicable within a reasonable time horizon from a public interest perspective. In addition, a second shortcoming that was invoked during the MG roundtable discussions in relation to the PIOB would also apply to the IASB: it is focused on the private sector; bringing in public sector accounting standards within the IFRS structure may not help to keep that focus.

Finally, this option would also raise similar challenges to those that arose when the PIOB and the Monitoring Group were considered as possible oversight and monitoring bodies for the IPSASB, including the need to change the composition of the PIOB (IFRS Foundation) and the MG (MB).

b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC

This option would probably follow the experience of IAASB, IESBA and IAESB under PIOB oversight and MG monitoring. It could be a specialized, cost-effective way of implementing oversight.

Setting separate monitoring and oversight boards for the IPSASB would allow their members to be selected from organizations with specific public sector interests and experience, for example, the OECD, IMF, World Bank, FSB and INTOSAI, or other
such similar organizations. Geographical balance of members in the oversight body
would be very important.

A critical practical argument in favor of this option is that funding would be assured
by IFAC, so that it can therefore be implemented quickly.

The main argument put forward against this option during the MG roundtable
discussions is that the board that issues public sector accounting standards should not
reside within the financial and organizational structure of a private sector
organization like IFAC. According to this view, Governments may not be willing to
adopt these standards because they would not be owned by the public sector.

c) Reestablishing IPSASB outside of IFAC with its own monitoring and oversight
   bodies

The advantage of this option is the setting up of a public sector accounting standards
board outside a private organization such as IFAC. Adoption of IPSAS by
Governments may be facilitated if IPSASB is outside IFAC. This is the theoretically
optimal option. It would guarantee independence, it could build on the current
IPSASB work, it would enable appropriately independent and experienced people to
be involved in oversight, but it may have some disadvantages. The three main
disadvantages are: (i) probably, private sector accounting criteria would influence
IPSAS with less force if IPSASB is made up of public sector accountants only, and this
may lead to less sector neutrality; (ii) critically, funding would be an issue: who
would pay for IPSASB and its oversight structure?, and (iii) the extent to which the
existing body of IPSAS and the accumulated experience of IPSASB would be
preserved.

d) Another approach, including some combination or sequenced implementation
   (e.g., short-term/long-term approaches) of the above options? If so, please describe

The two criteria mentioned under III above that guide our thinking on this issue can
best be met by:
1. Implementing option b in the short run, to meet the urgency of implementing independent oversight.
2. Consider option c in the long run, if independence issues arise.

**Question 2:** Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

The proposed remit is not clearly explained in the Consultation Paper. Particularly, it is not clear whether the Governance Review Group is considering the establishment of one single body to conduct both the oversight and monitoring of the IPSASB, or separate bodies. The first seems to be implied in the way question 2 is framed and the proposed remit is worded in section IV paragraph A of the Consultation Paper.

The responsibilities of the monitoring body and the oversight body are not clearly delineated. This is an essential element of the proposed governance arrangement. This should be clarified by the Governance Review Group.

In addition to this, other concerns have been identified with the proposed remit:

(i) there is no reference to the oversight body being responsible for overseeing the due process (or public interest responsiveness) followed by the IPSASB in setting IPSAS, in addition to the Board’s strategies and work programs;

(ii) the establishment of a Consultative Advisory Group (CAG) should be mandatory, including the nomination of an independent CAG Chair, following the successful experience of the extant IAASB, IESBA and IAESB CAGs.

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?
Overall, the PIOB agrees with the groups considered as possible candidates to provide members for an IPSASB monitoring body.

However, it is not clear in the Consultation Paper what the Governance Review Group meant with “organizations representing the interests of Parliaments”. An example would have helped clarify this concept to respondents. As it stands, it is not sufficiently clear to express an opinion. The issue to bear in mind is that such organizations may be subject to political influence, since Parliaments are dominated by political parties. If this is the case, they should not be part of the monitoring body. A different consideration is that membership of the future IPSASB CAG could be offered to ministries of finance around the world. This could be a way for governments to participate with their advice in the IPSASB’s processes and project priorities.

We also miss a reference to representation for taxpayers’ groups, which, in the case of public sector accounts, are the main group of stakeholders.

**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

The PIOB agrees with the intended composition of the IPSASB oversight body.

**IV. Conclusion**

The PIOB applauds the efforts by the key international stakeholders represented in the Governance Review Group in considering options for strengthening the IPSASB governance.
Accounting standards for the public sector have acquired increasing importance in the post-crisis world economy, given the fiscal expansion that has taken place and the consequent increases in levels of sovereign debt.

The PIOB believes that a decision in relation to the IPSASB governance is urgent and action needs to be taken immediately.

Enhancing the credibility of IPSAS by improving the IPSASB governance structure is of critical importance: IPSAS are the only existing set of global public accounting standards based on accrual accounting that could, through wider adoption, improve public confidence in the public sector financial reporting and contribute to global financial stability. IPSAS would also contribute to a more effective management of public entities.

There is no doubt that the public interest will be enhanced by improving the IPSASB governance structure. This would help the IPSASB evolve into an independent board so that the IPSAS gain global credibility and high quality, and become the international benchmark for the public sector.
Response from the Swedish National Audit Office on Consultation
Draft on Governance Structure
28th of April 2014
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Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

Answer: The Swedish National audit office supports option b. This option is quite simple to operationalize and could be implemented in a short time period.
The co-operation with IFAC is of great value concerning the use of resources and competence.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

Answer: Yes in overall we do agree with the proposed remit for the IPSASB monitoring and oversight body(ies). Though we would like to suggest that the description of the remit for each body is separately presented, to avoid confusion.
Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

Answer: Yes we do agree.

Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Answer: Yes.

Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

Answer: No.
Swiss Comments to Consultation Paper The Future Governance of International Public Sector Accounting Standards Board (IPSASB)

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Consultation Paper The Future Governance of International Public Sector Accounting Standards Board (IPSASB). We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP

Prof Nils Soguel, President  Evelyn Munier, Secretary

Swiss Comments to Consultation Paper The Future Governance of International Public Sector Accounting Standards Board (IPSASB)
Swiss Comments to

Consultation Paper The Future Governance of International Public Sector Accounting Standards Board (IPSASB)

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1. **Introduction**

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level.

One of its tasks is to issue a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation), and on behalf of them, when international consultations take place.

As a result, this response reflects a consolidated response of the whole Swiss state sector. In Switzerland the state sector involves the Confederation (central government), the 26 cantons (i.e. states), and the municipalities. The response also reflects the view of the government audit offices active at all these three tiers.

2. **Question 1**

*Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:*

- a) **Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?**
- b) **Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of IFAC?**
- c) **Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?**
- d) **Another approach, including some combination or sequenced implementation (e.g. short-term/long-term approaches) of the above options? If so, please describe.**

The SRS-CSPCP is of the opinion that the monitoring and oversight of the IPSAS Board should be strengthened. Such oversight exists for other organisations and provides a certain guarantee that their various procedures (nominations, work plans, consultations, etc.) are performed properly and validly. The SRS-CSPCP believes that it is important that any future strengthening of oversight does not give way to a politicization of the standard-setting activities. In addition, care should be taken that the creation of this improved oversight is not too expensive and does not become a complex bureaucracy.

However, cost should not be the main concern. Independence, especially from various state institutions, must be a first priority. Further criteria for the oversight body are credibility and legitimacy.

Considering the proposed alternative and this set of criteria, the position of the SRS-CSPCP is as follows:

Alternative a) does not guarantee independence. The SRS-CSPCP therefore rejects it.

Alternative b) implying the creating of a public sector version of the PIOB is probably cost and time saving. More significantly, it would certainly ensure a functional independence. However, for better or for worse, there remains an administrative dependence on IFAC. Seen from the outside this prevents a feeling of complete independence.

If one considers Alternative c), at first sight it provides greater independence, credibility and legitimacy. But upon closer inspection, the obvious risk exists of politicising the control body and, as a result, the above mentioned criteria would suffer. Additionally Alternative c) is also very expensive and bureaucratic.

Therefore Alternative b) appears to be the only solution for the oversight of the IPSASB, and it is really an effective and feasible option.
Ultimately, the SRS-CSPCP supports the choice of Alternative b). But it proposes in addition that after a defined period (say after 5 years) a first comprehensive review should take place.

3. **Question 2**

*Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?*

The document presented does not clearly describe how many bodies would be created and how the scope of duties would be arranged between these bodies. The SRS-CSPCP takes the view that more than one oversight body is not required. It would not increase the quality of the standard-setting provided by the IPSASB which is already high.

As already mentioned above, the structure surrounding the oversight body should be as light as possible. With two or more oversight bodies, this would not be the case. One single body should have full responsibility for oversight of the IPSASB.

The SRS-CSPCP wishes that following scope of duties would be granted to the oversight body:

- a) possibility of not only electing the members of the IPSASB, but also removing them (the reasons for removal are to be laid down, see also our response to the next question)
- b) acceptance and approval of the annual activity report, including the annual accounts, of the IPSASB.

4. **Questions 3 and 4**

*Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?*

*Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?*

As the SRS-CSPCP advocates for a single body for the oversight of the IPSAS Board, Questions 3 and 4 are answered together.

The SRS-CSPCP proposes that a document should be drafted containing the organisational rules for and the functioning of the oversight body. This document should also mention the scope of duties of the oversight body (e.g. appointment and removal of the IPSASB). The document to be drawn up should also clarify how the monitoring and oversight body is to be composed. Following criteria are important for its composition:

- Limited number of people (five or seven)
- Limited period of office for members of this body
- Technical skills and experience

Ideally this public sector version of the PIOB should be composed of representatives of the IMF, OECD, Eurostat and financial supervisors.

These so-called organisational rules should be distributed for consultation, in the same way as are the IPSASB Exposure Drafts and Consultation Papers.
5. **Question 5**

*Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.*

The SRS-CSPCP is of the opinion that the proposed structure of the oversight body with a division into two bodies would be too complex, too expensive. Furthermore it, would not provide additional benefits compared to a single oversight body. For this reason it strongly rejects it (see response to Questions 3 and 4).

If ever Alternative c) were chosen, it is particularly important that the oversight body is neither a state nor a political institution, in order that its independence, credibility and legitimacy are guaranteed.

Lausanne, April 9, 2014
The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

Comments from ACCA to the International Public Sector Accounting Standards Board Governance Review Group

29 April 2014

Our ref: TECH-CDR-1265

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 428,000 students throughout their careers, providing services through a network of 91 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

www.accaglobal.com

Further information about ACCA’s comments on this matter can be obtained from:

Gillian Fawcett
Head of Public Sector
Email: gillian.fawcett@accaglobal.com
ACCA welcomes the opportunity to comment on the proposals for the future governance of the IPSASB. We believe our professional accountancy expertise; experience and international reach across the public sector will allow us to make an informed contribution to proposals for the future governance and oversight of the IPSASB. The views expressed in this response reflect the opinions of our Global Public Sector Forum, which includes senior finance professionals, academics and advisors from around the world.

SUMMARY

For a number of years ACCA has been highly supportive of the work of the IPSASB and of its close working relationship with the IASB to interpret IFRS accounting standards for the public sector and the development of International Public Sector Accounting Standards (IPSASs).

We believe that international consistency and comparability of accounting standards for the public sector should continue to be at the heart of the objectives of the IPSASB. The introduction of oversight arrangements of the Board will serve to increase public confidence in both the standards setting process and the quality of financial reporting standards. It may also provide an impetus for more widespread adoption by public bodies of generally accepted public sector accounting standards.

In our view this consultation is very timely, particularly given the need for governments to become more accountable and transparent in the aftermath of the financial crisis. This is particularly important as the current debate on introducing and implementing European Public Sector Accounting Standards (EPSAS) has given rise to an intense public debate in Europe. These developments make it all the more important that oversight of the IPSASB is expediently addressed. It is also critical that the IPSASB continues to develop a close working relationship with the EC to avoid overlap and duplication of effort.

Irrespective of the final option selected, we urge the Review Group to minimize disruption to the functioning of public sector accounting standard-setting activities. Strengthened governance arrangements should be implemented in an effective and timely manner to increase the confidence of those using, adopting, and intending to adopt IPSASs. The proposed changes should not interfere with the IPSASB delivering its planned work programme.

We believe that the best long-term solution would be for monitoring and oversight of the IPSASB to come under the auspices of the IFRS Monitoring Board and Trustees (option a), particularly given that accounting standards are converging globally with countries looking towards IFRS and IPSAS. A key benefit of this option is that it would facilitate long-term convergence of financial reporting standards between the private and public sectors.
We recognise that bringing the IPSASB under the umbrella of the IFRS Foundation's Monitoring Board will not be without additional cost and will pose challenges to the composition of the monitoring board, its terms of reference and funding. The lack of representativeness of the IPSASB was raised as an issue by EUROSTAT so will need to be taken into account as part of any reorganisation. The Monitoring Board will need to include representatives of a wider public interest and individuals with expertise of public sector accounting. Despite the challenges and complexities we believe that these are not insurmountable in the long run.

Should option (a) be discounted, option (b), of introducing a separate monitoring and oversight board for the IPSASB within IFAC, would provide a short to medium term solution. But this arrangement would still leave unresolved issues, such as Board representativeness and potential conflicts of interest.

We do not support option (c), of establishing a separate body outside of IFAC. At this point in time we think that it is an unrealistic option, particularly given the current economic climate. It would be unlikely that governments and/or supranational institutions would be able to make the funds available to support such a body. Its introduction would also pose practical difficulties in terms of staffing, resourcing and government involvement. The latter is problematic as demonstrated by the proposed governance model set out by Eurostat for developing EPSASs. Many commentators fear the potential effects of large-scale government involvement will result in undue political influence in the standard setting process. These concerns have not been sufficiently addressed by Eurostat.

SPECIFIC COMMENTS

Question 1

Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour?

(a) Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

(b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

(c) Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

(d) Another approach, including some combination or sequenced implementation (e.g. short-term/long-term approaches) of the above options? If so, please describe.

We fully agree that the monitoring and oversight arrangements of the IPSASB should be strengthened. In our view IPSASB is a well functioning body and there are no
serious operational issues with it. But the fact that the IPSASB, alone among the IFAC standard-setting bodies, is not currently subject to any oversight mechanism is an anomaly that needs to be addressed. We understand that it has now been a number of years that IFAC has been considering options to improve the governance of the IPSASB to bring it in line with the arrangements of other international standard setting boards and we are pleased to see that this issue is being tackled with renewed vigour by the IPSASB Governance Review Group.

The need for enhancing governance arrangements for the IPSASB was reinforced by various stakeholders in the public consultation on governance of standard-setting arrangements undertaken by the IFAC, Monitoring Group in 2012. At the heart of this public consultation was the need to ensure that the public interest continues to be served in a parallel manner as other international standard setters, such as the Monitoring Board of the IFRS foundation.

It was clear from stakeholders’ responses to the public consultation that in order to instil confidence in the quality of the standards and the standard setting process that a body must be able to demonstrate and adhere to the principles of independence, accountability and objectivity. Above all, the governance structure should ensure that standard setting is protected from vested interests. We believe that a strong governance and oversight function would give assurance and promote confidence to those public bodies adopting the standards. It may also provide an impetus for more widespread adoption of generally accepted public sector accounting standards.

Arguably, if the governance and oversight issue of the IPSASB had been resolved earlier, EUROSTAT would have had less cause to reject IPSAS for member states on the basis of the lack of oversight of the IPSASB. Of course, there were other issues raised by EUROSTAT such as the lack of representation on the board, but nevertheless the absence of oversight was raised as an area of significant concern.

Our view is that the best long-term solution would be for monitoring and oversight of the IPSASB to come under the auspices of the IFRS Monitoring Board and Trustees, particularly given that accounting standards are converging globally, with most countries looking towards IFRS and IPSAS. Also, the boundaries between the public and private sector sectors are becoming increasingly blurred. A key benefit of this option is that it would facilitate long-term convergence of financial reporting standards between the private and public sectors. We also agree with the Independent Review Team’s view that the IFRS Foundation’s Monitoring Board and Trustees have well established public interest procedures, resources and competence. These features can be readily applied to the setting of public sector accounting standards.

Bringing the IPSASB under the umbrella of the IFRS Foundation’s Monitoring Board will not be without additional cost and will pose challenges to the composition of the monitoring board, its terms of reference and funding. The lack of representativeness of the IPSASB was raised as an issue by EUROSTAT so will need to be taken into account as part of any reorganisation. The Monitoring Board will need to include representatives of a wider public interest and individuals with expertise of public sector accounting, but we believe that these challenges are not insurmountable in the long run.
Our understanding is that the Trustees’ strategy review in 2012 did not fully rule out extending the IFRS Foundation’s Monitoring Board and Trustees activities, rather that certain conditions would need to be met to allow the Foundation to extend its scope. In light of these developments we would suggest that the IPSASB continues to have a dialogue with the IASB with a view to pursuing this as a long-term option. The IASB and IFAC have recently signed a memorandum of understanding that sets out mutual interests, communication and co-operation processes. In our view this provides a good basis to build upon.

Failing any progress or agreement for the IPSASB to come under the umbrella of the IFRS Foundation’s Monitoring Board then option (b), of introducing a separate monitoring and oversight board for the IPSASB, while it remains under the remit of the IFAC, could provide a good alternative short to medium-term solution.

Pursuing option (b) in the short to medium-term would appear on the surface to be a straightforward solution. A separate PIOB could be implemented relatively quickly and would introduce due process to standard setting for the public sector. However, this option is also not without its challenges. In particular, the proposed governance model still runs the risk of receiving accusations about its lack of independence, for example, continued reliance on IFAC for the bulk of its funding raises questions about the Board’s independence from the accounting profession. There are also cost implications and the proposals set out in the consultation paper do not address issues of representativeness of the Board. This was a concern raised in EUROSTAT’s report ‘Towards implementing harmonised European Public Sector Accounting Standards’ (2013)

We believe that option (c), of establishing a separate body outside of IFAC, is unrealistic, particularly given the current economic climate. It would be unlikely that governments and/or supranational institutions would be able to make the funds available to support such a body. Its introduction would also pose practical difficulties in terms of staffing, resourcing and governmental involvement. The latter is problematic as demonstrated by the proposed governance model for developing EPSASs set out by Eurostat. Many commentators fear the potential effects of large scale government involvement will result in undue political influence in the standard setting process. These concerns have not been sufficiently addressed by Eurostat.

Question 2

a) Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section 1V, paragraph A? Are there other issues that should be addressed?

The consultation paper does not sufficiently make clear the specific remit of each body in the proposed governance structure. However, it does set out the three key aims. We agree that the public interest is best served by independent standard-setting arrangements with strong oversight, but it is not clear to us why an oversight body would “establish the standard-setting strategy and governance arrangements”. We
believe that it is the role of the IPSASB to establish its standard-setting strategy as an independent standard-setting board with appropriate public interest oversight. However, there is a role for the oversight function to review the broad strategic issues affecting financial reporting standards.

We also strongly support the five essential responsibilities outlined for oversight and monitoring functions as set on in IFAC’s paper ‘International Standard-setting in the Public Interest, and IFAC’s response to the Consultative Report on the Review of the IFRS Foundation’s Governance in April 2011’.

Question 3
Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

We believe it is critical that individuals nominated and appointed to the new governance body are suitably qualified, competent and respected in their field, so that they can inspire confidence in the standards that are produced.

However, given the characteristics of an oversight board, it will be important that members are recruited not solely for their technical competence, but for their wider ability to oversee the process of standard setting and to ensure due process has been followed. In addition, while we agree that the membership of the governance body should include some with experience in the public sector, it is not necessarily the case that all members of the governance body would need to have a public sector background. For example, including individual/s with international or national standard-setting experience can introduce valuable insights, challenge and contributions about the standard-setting process.

Question 4
Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

ACCA has nothing further to add other than as set out above in our response to question 3.

Question 5
Are there any other aspects related to the governance of IPSASB that you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

ACCA has no further comments to make on the proposed governance arrangements for the IPSASB.
6 May 2014

The Chairs
The International Public Sector Accounting Standards Board Review Group
c/o Organisation for Economic Co-operation and Development

By email: IPSASB@oecd.org

Dear Review Group Members

**The Future Governance of the International Public Sector Accounting Standards Board**

The Chartered Institute of Management Accountants (CIMA) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board Review Group’s proposed governance arrangements for the International Public Sector Accounting Standard Board (IPSASB).

CIMA believes that high-quality financial information is a pre-condition for informed decision making and this applies equally in a public sector context as a commercial environment. International Public Sector Accounting Standards are the only global and comprehensive set of accounting standards for the public sector. Strengthening the governance of the IPSASB will increase confidence in its standard-setting arrangements and enhance the case for more widespread adoption of public sector standards.

We have consistently stated that funding of IPSASB should be by those governments that make use of their standards and believe that this basis should also apply to the funding of governance arrangements.

Yours faithfully

![Signature]

CHARLES TILLEY FCMA CGMA
Chief Executive
April 30, 2014

Via email: ipsasb@oecd.org

The International Public Sector Accounting Standards Board Governance Review Group

Re: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB) – PUBLIC CONSULTATION

Dear Review Group Members:

Grant Thornton International Ltd (GTIL) is pleased to respond to the International Public Sector Accounting Standards Board Governance Review Group’s (Review Group) consultation regarding the future governance of the IPSASB.

GTIL is a private company limited by guarantee, incorporated in England and Wales, and is an umbrella organization that does not provide services to clients. Services are delivered by the approximately 126 Grant Thornton member firms around the world, each of which is a separate legal entity. There are over 38,000 Grant Thornton personnel in these member firms.

GTIL welcomes the consultation, as we support the establishment of independent oversight and monitoring of the IPSASB. For the reasons set forth more fully in Appendix A, we support the establishment of a single body responsible for both oversight and monitoring, which should remain under the auspices of the International Federation of Accountants (IFAC).

In the wake of the financial and sovereign debt crises, it has become increasingly important for governments to improve their transparency and accountability through better financial reporting. Similar to our support for single sets of high-quality standards for the private sector, GTIL likewise supports a single set of high-quality financial reporting standards for the public sector. It is clear that IPSASs should be that standard, as they are the only set of credible high-quality global public sector financial reporting standards in widespread use today.

While there has been increased interest in and support for IPSASs in recent years, we understand that concerns have been raised with respect to the governance and oversight of the IPSASB, and the consultation paper notes that those concerns may play a role in the reluctance of some countries to adopt IPSASs. We express no opinion on whether the current governance arrangement truly has been a significant limiting factor with respect to the adoption of IPSAS or whether there are other factors in this regard.

Regardless, GTIL supports the creation of an independent oversight and monitoring body with respect to the IPSASB, because we believe that such a body would serve the public interest by, among other things, responding to the needs of the public and enhancing the legitimacy and independence of the public sector standard setting.
process. For those countries where the current lack of such a body truly is a reason for countries not adopting IPSASs, then it stands to follow that the creation of such a body would likely lead to an increase in IPSAS adoption.

GTIL thanks the Review Group for the opportunity to provide input into this important consultation. Please see Appendix A for our responses to the specific consultation questions.

*     *     *

Please let either me (1.202.861.4100; jon.block@gti.gt.com) know if you would like to discuss this further.

Sincerely,

Jonathan M. Block
Director public policy and senior counsel
Appendix A

Responses to Specific Questions

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:
   a. Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees?
   b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
   c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
   d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

Response to Question 1:

As GTIL has stated previously in our response to the 2012 Monitoring Group consultation on governance arrangements, we believe that there is a need to strengthen the monitoring and oversight of the IPSASB. We support Option B: separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC.

There has been increased focus on public sector issues such as sovereign debt in recent years. Given the current economic environment, we believe that monitoring and independent oversight of the IPSASB will help to ensure that standard setting serves the public interest. Governments, like corporates, have a duty of care to numerous stakeholders, and decisions about the financial health of a government have a direct and powerful impact on local and global economies. It is critical to these stakeholders that governments' financial management and reporting is high quality. Improved governance over the standard setting process would assist in achieving this objective by ensuring that standards of accounting are developed independently of the governments applying them.

We support Option B, and we also support the Review Group’s suggestion that the monitoring and oversight functions could be carried out by a single body, as set forth more fully in our response to question 3.

We agree with the benefits set forth on page 17 of the paper, and further believe that the choice of establishing the monitoring/oversight entity under IFAC is further warranted given the current successful governance arrangements established for the other independent standard setting boards that are supported by IFAC. These standard setting boards currently comprise members that have high levels of expertise, are overseen by active bodies protecting the public interest, and have stable funding arrangements.

As to the challenges of Option B that the paper raises, we believe that setting up a new body under IFAC would in fact benefit from accumulated expertise and experience in public interest oversight, as there could be close consultation with the Monitoring Group and the PIOB in the initial stages of formation. While there will of course be increased cost in setting up any new body, it is not clear that Option B is any more costly than the other approaches.
Finally, we understand that there are questions of perceived independence from the accounting profession, but these concerns should be alleviated in large part with the creation of an independent body overseeing the IPSASB.

More generally, GTIL believes that the Option B is by far the most practical option at this time. With respect to Option A, the public report of the IFRS Advisory Council Chairmen to the Trustees and the IASB on the February 2014 Advisory Council meeting notes that there was broad consensus that it would not be feasible in the short term to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. GTIL agrees with this conclusion and agrees with the practical challenges set forth by the Review Group in the paper.

With respect to Option C, the challenges raised in the paper are indeed significant; given the apparent broad agreement that there should be monitoring and oversight over the IPSASB, attempts to reestablish the IPSASB outside of IFAC without a clear plan would seem to create an unnecessarily high risk that such a body would not be constituted in the short to medium term.

**Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?**

**Response to Question 2:**

In general, GTIL agrees with the proposed remit for the IPSASB monitoring and oversight body and believes that the public interest will be served.

However, we believe that establishing the standard setting strategy should be the province of the IPSASB itself, as the IPSASB is an independent standard setting board with significant expertise. To be clear, the IPSASB should follow appropriate due process consistent with high quality international standard setting, which includes, among other things, having appropriate public consultation on its strategy, and it should be part of the remit of the monitoring and oversight body to ensure that the IPSASB appropriately considers public comments on its strategy.

**Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?**

**Response to Question 3:**

As noted above, GTIL supports a single body responsible for monitoring and oversight of the IPSASB. We believe that creating a single body would be more practical than creating two new bodies, as a single body will be most efficient and cost effective to establish and administer. A single body (as opposed to two separate bodies) will still serve the overriding purpose of being independent and increasing the legitimacy of the IPSASB’s standard setting.

In general, GTIL believes that the public interest would be served by considering representation on this body from the wide variety of stakeholders listed in the paper,
but care must be taken to ensure that the size of the body is not too large to be unwieldy.

In addition, we believe that some members of the monitoring/oversight body should have technical competence in accounting and financial reporting, as well as in the public sector, in order to ensure that the monitoring/oversight body as a whole understands the decisions that the IPSASB makes with respect to standard setting and strategy. We would not overstate the need for these characteristics, however, as we believe that primary responsibility for standard setting and strategy should rest with the IPSASB itself, with the oversight and monitoring coming from the newly-established body.

**Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?**

**Response to Question 4:**

Please see GTIL’s response to question 3. At least initially, we believe that there should be a single body responsible for monitoring and oversight of the IPSASB, as set forth in our response to question 3.

**Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.**

**Response to Question 5:**

GTIL has no further comments.
THE FUTURE GOVERNANCE OF IPSASB

ICAEW welcomes the opportunity to comment on the consultation paper *The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)* published by IPSASB in January 2014, a copy of which is available from this link.

This response of May 2014 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.
ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW’s regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 142,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
MAJOR POINTS

Support for the initiative

1. ICAEW supports the vision of high quality global public sector accounting standards, set by an independent standard setter in the public interest and aligned as far as possible with IFRS. We acknowledge that IPSASB and before that IFAC’s Public Sector Committee have made an important contribution to the realisation of this vision. We also acknowledge – and welcome – the increasing interest in IPSAS and the positive changes made in recent years to IPSASB governance and due process.

2. The global financial crisis has thrown into bold relief the serious shortcomings in public sector accounting practices and financial reporting in many jurisdictions, shortcomings that are inimical to the interests of providers of capital and society generally. The acknowledged need for a step-change in the quality of public sector financial information has put IPSASB standards in the spotlight. But it has also highlighted the importance of ensuring that the global standard setter for public sector accounting, if that role is to be fulfilled successfully by IPSASB, has an appropriate, resilient and well-respected governance structure. Accordingly, we support efforts to reform existing monitoring and oversight arrangements as a prerequisite for improving the standing of IPSAS and the likelihood that the standards, or jurisdictional standards based closely on IPSAS, will in time become an accepted basis for public sector accounting around the world. If that were to come about, IPSASB and its governance processes would come under intense scrutiny and it is imperative that these are clearly fit for purpose.

3. That said, we would welcome clarification of the evidence that the major – and potentially costly – changes envisaged would lead to a significant increase in the global take-up of IPSAS in the near future, especially in view of plans in the EU to establish a regional standard setting body for public sector accounting. In developing our responses to the questions posed in the consultation paper we have assumed that a number of major public sector organisations have indicated that there is a strong likelihood that they will migrate to IPSASB’s standards if its governance is overhauled along the lines proposed in the consultation paper. If this is not the case, the rationale for change might be brought into question and a more gradual approach may be appropriate for developing a new governance regime and – importantly – appropriate funding arrangements.

4. The issues involved are complex, and all of the approaches suggested in the consultation paper involve some very significant risks and drawbacks. We have set out below our views on the key issues raised by the Review Group. However, we do not think that this matter will be resolved any time soon. Of the options sketched out in the consultation paper, we have concluded that, ideally, responsibility for IPSAS would lie with the IFRS Foundation (option (a)). But before we could offer support for this option, we would have to be convinced that some highly significant preconditions would be met, and it seems unlikely that this will be the case for the foreseeable future. Further delay is regrettable. However, subject to analysis of the other comments received by the Review Group, it might be concluded that change to the IPSASB governance regime and its funding should be looked at over a longer timescale, and perhaps in stages.

5. Whatever happens, we see the continued involvement of the World Bank and other major international organisations in this process as essential, and would suggest that support is sought from the G20 and as wide a group of stakeholders as possible.

6. ICAEW has been closely involved at each stage of the on-going review of the constitutional arrangements of the IFRS Foundation. We have submitted detailed comments on all the proposals for reform of the constitution issued since February 2004 and have been represented at each of the public hearings held in London since that time. More recently, through FEE’s Taskforce monitoring implementation of Philippe Maystadt’s proposals, we have been closely involved with the debate over the reform of EFRAG. The issues we raise below draw on our experience in this area.
7. ICAEW would be happy to discuss with you the practicalities of proposals for reform of IPSASB’s governance arrangements and to assist with promoting further debate.

RESPONSES TO SPECIFIC QUESTIONS

Question 1
Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

8. We do not think that a convincing case has been made in the consultation paper for options (b) or (c) above, as explained below.

Option (b)

9. IFAC is the global organisation of the accountancy profession. Despite its proven track record in setting international standards in other contexts, we doubt that concerns over accountability, independence and perceived conflicts of interest will be addressed convincingly through option (b). Previous opportunities for internal reform have not been grasped, and anything less than root and branch reform now seems unlikely to establish beyond doubt the long-term credibility and authority of IPSASB as a standard settler for governments, with all the governance requirements that that would entail. Thus it would represent only an interim solution.

10. Option (b) could perhaps be implemented more quickly than other options, but (unless it is clearly an interim solution) we do not think that this should unduly influence a decision which has major implications for the long-term success of global standard setting for the sector.

Option (c)

11. Although we have major misgivings about option (b), as a general principle we favour institutional evolution, building on and improving existing structures. Accordingly, we do not favour option (c) either. This approach would add unnecessarily to the proliferation of international and regional bodies involved in the standard setting process, and establishing an entirely new institution seems certain in practice to involve substantially more cost and logistical effort than other options. A standalone body may also find it less easy to resist overt political pressure on its technical standard setting activities and may be less likely to remain committed to the approach – which we strongly support - of aligning IPSAS wherever possible with IFRS.

12. We note however that the lack of detail provided to support this option makes it difficult to assess its merits.

Option (a)

13. In our July 2011 comment letter on the IFRS Foundation report *IFRSs as the Global Standard: Setting a Strategy for the Foundation’s Second Decade*, we noted that the work of the Foundation in establishing a high quality international regime for financial reporting is coming to be seen, not only as the accepted global currency for listed companies, but as a gold standard for other types of entity seeking greater transparency. We suggested that it was in the public interest for the Trustees to consider the desirability, and feasibility, of addressing
accounting by not-for-profit entities as soon as resource constraints allow, accepting that may not be for some time and that, similarly, it was impractical for the IASB ‘at present’ to extend its activities to the public sector.

14. Notwithstanding this assessment, of the options sketched out in the consultation paper, we have concluded that, ideally, responsibility for IPSAS would lie with the IFRS Foundation (option a). This approach seems most likely to avoid the sorts of accusations of conflicts of interest sometimes made in relation to IPSASB and at the same time has the potential to afford good protection for the independence of the standard setter. Further, most of the current suite of IPSAS is very closely based on IFRS. If it is accepted that public and private sector financial reporting – including the importance of its stewardship aspect – are not so very different, bringing IPSASB and the IFRS Foundation together avoids reinventing the wheel and duplication of overhead. It is also important that the IFRS Foundation governance structure enjoys a fair degree of credibility, credibility that should be advantageous to IPSASB.

15. For option (a) to be a realistic proposition, the risks for the IFRS Foundation - the potential impact on its ability to achieve its current mission - would have to be carefully evaluated, and, as far as possible, mitigated. Four inter-related issues are examined briefly below – governance; the focus of the IASB; political pressure; and funding. These incorporate a number of highly challenging preconditions for any move to implement option (a). Before we could offer support for this option, we would have to be convinced that those preconditions would be met.

Governance

16. Option (a) would necessitate substantial reform of the Foundation’s institutional architecture.

17. We would envisage a separate public sector board sitting alongside the IASB, but are unsure at this stage whether it would be feasible to have a single Monitoring Board covering both the IASB and IPSASB, and similarly whether it would be feasible to have one body of trustees covering both areas of standard setting. A single Monitoring Board would perhaps need to be expanded to encompass the IMF, World Bank and OECD; the Trustee body might have to be revised to incorporate wider experience of the public sector, but this might not be too difficult to achieve.

The focus of the IASB

18. It would be critical to ensure that the IASB is not distracted from its focus on setting standards that facilitate the production of commercial financial information for capital providers to commercial organisations. It is essential that financial statements are focussed in this way and it would not be acceptable for standards to be drafted in such a way that they detracted from this aim in the interests of satisfying the information requirements of the users of the financial reports of other types of entity.

19. It would be extremely important to ensure that both boards – the IASB and IPSASB – were able to carry out their work programmes separately, effectively and in a timely fashion, in order to satisfy their different constituents, only aligned and connected where appropriate.

Political pressure

20. It is inconceivable that new threats of undue pressure from regulatory or governmental organisations will not be brought to bear on the standard setting processes of the Foundation were governments subject to its standards. Governments will, of course, have a legitimate interest in the development of the standards they will implement. But if pressures were successful in changing standards for other policy ends, and particularly to avoid transparency, this would be highly damaging to the public interest.

21. Accounting solutions should be determined on their technical merit, not according to political weight or social or economic policy objectives. Where decisions are seen to be influenced unduly by pressure from governmental or regulatory organisations, the result tends to be a lack
of adequate due process or rigorous exposition of the technical issues involved. Effective governance arrangements can mitigate the risks involved, up to a point; indeed a key objective of any high level Monitoring Board should be to assist Trustees and members of standard setting boards to resist political pressure and lobbying in the technical standard setting process.

22. The political environment already represents a huge challenge for the IFRS Foundation in the context of private sector accounting standards, both in encouraging wider adoption of IFRS and in making sure that IFRS is implemented thereafter to a high standard; it would not be acceptable to leave the Foundation exposed to even greater political difficulties than those it faces already.

Funding

23. Funding challenges need to be addressed convincingly. Indeed, all of the options set out in the consultation paper stand or fall on the issue of resources, and at present the ability of the reformed IPSASB to secure adequate and sustainable sources of funding seems highly uncertain.

24. Importantly, we do not agree that the costs of taking-on IPSASB oversight would be only ‘incremental’ (page 16) to the existing costs of the Foundation. Indeed, we believe that a significant increase in IPSASB funding is likely to be necessary, not only in respect of governance and oversight, but to ensure that the board operates as effectively as possible and that its technical work and its due process are always of the rigour required for an international standard setter of major economic significance.

25. All of the above are major challenges, both individually and collectively, and no decision on the future of IPSASB can be taken without a full and rigorous debate about how they will be overcome and the actions needed to do so. We understand that the Foundation intends to look again at the scope of its activities as part of the review of the structure and effectiveness of the organisation due to commence in 2015. We welcome this and suggest that the Foundation starts to gather views now on the implications of extending its remit to the public sector so that an early and well-informed public debate can take place on this aspect of the review.

26. While further delay is regrettable, the considerations outlined above mean that it may be more appropriate to look to change the IPSASB governance regime and its funding over a longer timescale, and perhaps in stages. We would reiterate that institutional development and transition of this nature would take some time to implement properly and that this might mean that interim arrangements for IPSASB governance need to be considered. This debate has been underway for several years, without resolution. We do not agree that ‘the speed with which the different proposed arrangements can be put in place’ (page 15) should be a major factor in determining the way forward and implementing effective change, although we agree that it is very important to ensure that the standard setting programme of IPSASB is not unduly disrupted.

Question 2

Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

27. We broadly agree with the proposed remit of the IPSASB monitoring and oversight body/ bodies, although we think that the role of the oversight body in ‘establishing the standard-setting strategy’ (page 13) should not extend to influencing determination of IPSASB’s technical work programme. It should, however, explicitly cover the adequacy of IPSASB due process.

Question 3
Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

28. We broadly agree with the proposed composition of the monitoring body.

29. We would emphasise that restricting total membership to say no more than 10 individuals is likely to lead to a more effective and focused approach to monitoring. Subject to this, we suggest that ‘international institutions’ (page 14) represented on the new body should include the IMF, the OECD and the World Bank.

Question 4

Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

30. We broadly agree with the proposed composition of the oversight body.

31. We doubt that ‘recognized experience in the public sector’ (page 15) should be required in every case. There is a mandate for private sector individuals to influence public sector reporting to avoid public sector ‘group-think’ and special pleading.

Question 5

Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

32. We have no further comments at this stage. We recognise that the issues are complex: ICAEW would be happy to discuss with you the practicalities of proposals for reform of IPSASB’s governance arrangements and to assist with promoting further debate.
Dear International Public Sector Accounting Standards Board Governance Review Group

Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

We appreciate the opportunity to comment on the International Public Sector Accounting Standards Board Governance Review Group’s (the ‘Review Group’) Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB). We have consulted with, and this letter represents the views of, the KPMG network.

We applaud the efforts of the Review Group to develop alternative models for and seek consultation on the oversight of the IPSASB. As with any standard-setting body, the credibility of the IPSASB’s standards is closely tied to the public perception of the Board’s independence and objectivity in its standard-setting activities, and a critical aspect of ensuring that the Board carries out its standard-setting activities in an independent and objective fashion is the quality and effectiveness of its governance and oversight structure.

On balance, we favour Alternative 3 (re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies) with the proviso that a new structure would have a close linkage with the IFRS Foundation. We recognise that the objectives of public sector entities can differ in certain significant respects from those of business entities and, accordingly, the specific financial reporting needs of those financial statement users can differ from those of business entities. However, we do not believe that those differences are so great as to justify a fundamentally different basis of accounting. In addition to certain differences in objectives, there can be certain differences in the constituencies of the IPSASB and the International Accounting Standards Board (IASB) (although we recognise that there is a significant degree of overlap between the two constituencies as well), which also underlines our support Alternative 3.

We recognise, however, that Alternative 3, while being the best approach to support the Board’s independence and provide an effective monitoring and oversight of the IPSASB, would also require significant efforts to put in place since it would require the creation and funding of a completely new organisation and infrastructure. While Alternative 3 remains our preference, we
do understand that there would be difficulties in finding appropriate and sustainable funding for a new governance and oversight organisation.

As we noted above, in our view there are important differences in objectives and constituencies of the IPSASB and IASB. However, there are many (perhaps far more) commonalities in objectives and constituencies. Therefore, in order to enhance the comparability of financial information provided by public sector entities with that of business entities, we favour a close linkage between the two groups (and their Boards) because we agree that the IPSASB should continue to seek to converge its standards with International Financial Reporting Standards (IFRS) to the extent possible. We favour Alternative 3 coupled with a close linkage between the two organisations over Alternative 1 (extending the scope of the IFRS Foundation’s MB and Trustees activities) because we are concerned that Alternative 1 could distract the IFRS Foundation and IASB from focusing on the information needs of capital providers to business entities and obtaining the funding needed to meet that commitment.

We recognise that establishing a “close linkage” between the IFRS Foundation and a new IPSASB Foundation is a bit unclear, but we note that the IASB has initiated efforts to establish a closer and more formal linkage with other key constituents recently (e.g., International Organization of Securities Commissions (IOSCO), International Valuation Standards Council (IVSC), National Standard Setters through Accounting Standards Advisory Forum (ASAF)). Accordingly, we believe it would be best for the new IPSASB Foundation/IPSASB and the IFRS Foundation/IASB to determine the form and parameters of the close linkage once a separate governance structure for the IPSASB is established.

With respect to Alternative 2 (establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC), we recognise that it is likely to be an easier structure to put in place than either Alternative 1 or 3, but we are concerned that it might be perceived by key constituents as having minimal substantive differences from the current situation and therefore those constituents might view this approach as maintaining the status quo. However, given the challenges noted above to implement Alternative 3, it may be necessary to pursue Alternative 2 as an interim step while the further steps needed to implement Alternative 3 (including securing appropriate and sustainable funding) are completed.

The appendix to this letter provides our responses to the specific questions raised by the Review Group.

Please contact Mark Vaessen +44 207 311 8471, Paul Munter at +1 212 909 5567 (pmunter@kpmg.com) or Archie Johnston at +1 604 527 3757 (agjohnston@kpmg.ca) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited
Appendix

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

As discussed in our covering letter, we agree there is a need to strengthen the monitoring and oversight of the IPSASB and to do so we favour Alternative 3 (or (c) above) for the reasons expressed therein and subject to our observations about the challenges to implementing this alternative. We have not identified any other viable approaches at this time.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

In general we agree with the proposed remit for the monitoring and oversight bodies. However, we are concerned with the meaning of “(ii) establish the standard setting strategy and governance arrangements”. We agree that the monitoring and oversight body should be responsible for the governance arrangements, including required due process steps, with respect to the IPSASB’s standard setting. However, we believe it should be clear that the IPSASB itself has full authority to establish its own agenda and the sole responsibility for the issuance of standards in accordance with due process procedures established by the monitoring and oversight body. We believe this should be made clear when the role of the monitoring and oversight body is articulated.

Additionally, we believe that the monitoring and oversight body will need to establish specific criteria, including technical competence, geographical representation, and background (i.e., preparer, users, auditor of public sector financial statements) of Board members.

Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

While the specific composition of the monitoring body may be influenced to a certain degree by the structural alternative chosen, we generally agree with the proposed composition of the monitoring body.
Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

While the specific composition of the oversight body may be influenced to a certain degree by the structural alternative chosen, we generally agree with the proposed composition of the oversight body. We do believe, however, that the interest of those who provide capital to public sector entities should be adequately represented on the oversight body.

Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

We have not identified any other issues at this time that the Review Group should consider.
Dear Sirs

Consultation paper – The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)

We appreciate the opportunity to respond to this consultation issued by the OECD on behalf of the IPSASB Governance Review Group. We have considered all of the questions in the consultation paper. Our comments on those specific questions where we have a particular view are included in the accompanying Annex. In this covering letter we summarise our observations on the central question raised by the paper.

Options for establishing IPSASB’s monitoring and oversight bodies

The recent financial and sovereign debt crises and subsequent constraints on public spending have reinforced the importance of robust financial management and reporting in governments and public services and the need for high quality accounting standards for the public sector. It is important that stakeholders have confidence in the infrastructure underpinning the setting of those standards and hence we support moves to enhance the oversight and due process of the IPSASB.

For the reasons set out in more detail in our response to Question 1 in the attached annex, we believe that Option 2 in the paper – establishing separate monitoring and oversight functions for IPSASB while it remains under the auspices of IFAC – is the only viable option that will ensure operational sustainability of IPSASB in the foreseeable future.

That said, we question whether it would be necessary to establish separate monitoring and oversight bodies over IPSASB under Option 2. This solution, in the guise of a Monitoring Group of regulators and a Public Interest Oversight Board (PIOB), was adopted for the other public interest standard setting boards under IFAC and is mirrored in the IFRS Foundation governance structure. The dual structure reflects the need to reconcile private and public sector interests in a body setting standards for private entities operating in the capital markets. However in the case of oversight of a single public sector-focused board we do not see why these functions could not more efficiently be accommodated in a single body,

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1 This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to “PwC”, “we” and “our” refer to the PwC network of member firms.

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particularly as there will inevitably be overlaps in the potential constituencies from which membership of the proposed monitoring body, the oversight body and indeed IPSASB itself would be drawn.

We would be delighted to discuss our views further with you. If you have any questions in the meantime regarding this letter, please contact Georg Kaempfer (+49 69 9585 1333), John Hitchins (+44 207 804 2497), Patrice Schumesch (+32 2 7104028) or Graham Gilmour (+44 207 804 2297).

Yours sincerely

PricewaterhouseCoopers International Limited
ANNEX

The Future Governance of the IPSASB - Responses to detailed questions

1. Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:
   a. Monitoring and oversight of IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
   b. Separate monitoring and oversight boards for IPSASB, while it remains under the auspices of IFAC?
   c. Re-establishing IPSASB outside of IFAC with its own monitoring and oversight bodies?
   d. Another approach, including some combination or sequenced implementation (eg short-term/long-term approaches) of the above options? If so, please describe.

- As we noted in our previous response of June 2012 to the Monitoring Group’s consultation on the governance of the Monitoring Group, the PIOB and the standard setting boards, the International Public Sector Accounting Standards (IPSAS) are significant since they can form the basis of the accounts prepared by government institutions that are provided to citizens. Hence, given the importance of IPSASB’s output, the standards should be of demonstrably high quality and developed having regard to the public interest.

- We consider that IPSASB should have a similar level of robust due process and governance over standard setting to that enjoyed by the other IFAC public interest standard setting boards (and by the equivalent IASB that sets accounting standards for the private sector). We therefore support this initiative by the Review Group and measures to enhance the oversight and due process of the IPSASB.

- We believe that Option 2 in the paper – establishing separate monitoring and oversight functions for IPSASB while it remains under the auspices of IFAC – is the only viable option that will maintain operational sustainability of IPSASB in the short and medium terms.

- In our view, Option 1 in the paper would present significant operational challenges. The IFRS Foundation and the IASB already have a full programme of private sector accounting standards projects with which to deal, and assuming responsibility for public sector accounting would be a significant distraction from the Foundation’s core activity and priorities. Also, the Foundation has experienced challenges in funding since the financial crisis and has endeavoured to move the funding of the organisation onto a broader and more sustainable basis, from a mix of private and public sector sources. This is still a work in progress, and we do not believe that this would be the right time for the Foundation’s Trustees to be given responsibility for funding of IPSASB as well. We understand these views were broadly shared by members of the IFRS Advisory Council when they discussed the OECD’s consultation paper at their meeting on 24-25 February.

- Further, although we believe the procedures to safeguard the independence of the IFRS Foundation and IASB from undue influence to be very robust, bringing both types of accounting standards under the same roof may be perceived by some as too close a relationship which may restrict the ability of IPSASB to arrive at different accounting solutions where these are appropriate to the public sector. At the same
time, it may inadvertently increase the level of political intervention in accounting standards for the private sector to a disproportionate extent.

- In relation to Option 3, we consider that setting up an entirely self-standing structure outside IFAC would give rise to significant operational challenges of creating and funding a new institution. This would likely severely disrupt continuity in the development of IPSASs until the new structures became established. It may also be more expensive than the other options.

- Accordingly, we believe that Option 2 offers significant benefits over the other options in relation to operational effectiveness and continuity of the IPSAS standard setting function. We also understand this to be the unanimous view of the current members of IPSASB.

- We consider Option 2 would also more likely lead to a steady flow of high-calibre candidates from a range of different backgrounds continuing to be attracted to become members of IPSASB. Moving IPSASB under the IFRS Foundation, or conversely establishing it as a self-standing organisation in the public sector, may constrain the field of candidates (a narrower range from the private or the public sectors respectively) compared with the present position.

- That said, we question whether it is necessary to establish separate monitoring and oversight bodies over IPSASB under Option 2. The model of oversight by a Public Interest Oversight Board and governance by a Monitoring Group of regulators was adopted a decade ago for the other public interest standard setting boards under IFAC. This structure was deemed necessary to establish, alongside private sector oversight, a level of public accountability for standards primarily designed for use in the context of reporting in the capital markets. But in the case of oversight of a single standard setting board where the output is primarily for use in the public sector, we question whether these functions could not more efficiently and cost-effectively be accommodated in a single body.

2. Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

- Broadly, we agree with the proposed remit. However, in relation to item (iii) of the remit, we would stress the importance of transparent and rigorous due process. In relation to the equivalent mechanisms for private sector accounting standards setting, we note that the IFRS Foundation Trustees have expanded significantly in recent years the due process around IFRS standards (including setting up a Due Process Oversight Committee). Recent innovations have included establishing procedures for an effects (or costs and benefits) analysis as part of developing new standards and post-implementation reviews of recently issued standards.

- We recommend that, irrespective of the option ultimately pursued, it will be helpful for those responsible for the future oversight of IPSASB to have regard to the latest Due Process Handbook of the IASB, as well as to the due process steps adopted by the other standard setting boards under IFAC.

We have answered the following two questions together.

3. Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?
4. Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests or stakeholders who should be represented?

- We have no particular views on the detailed composition of the monitoring and oversight bodies as set out in section IV, paragraph B of the consultation paper. However we observe that there is some potential overlap in the proposed constituencies and backgrounds from which members of these bodies, and of IPSASB itself, would be drawn. As noted in our covering letter and in relation to Question 1 above, we question whether it is necessary to establish separate monitoring and oversight bodies over IPSASB. In relation to oversight of a single public sector-focused standards setting board, these functions could perhaps be more efficiently accommodated in a single body.

5. Are there any other aspects related to the governance of IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

- We have no further comments to add.
Dear Jón,

PUBLIC CONSULTATION ON THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB) GOVERNANCE REVIEW

This letter sets out the comments of the IFRS Foundation in response to the public consultation document The Future Governance of the International Public Sector Accounting Standards Board (IPSASB), published in January 2014.

As you know, in developing our response, we have sought the advice of the IFRS Advisory Council, and we are very grateful to you for taking the time to give a presentation on the document to the Council at its meeting in February.

The Foundation’s responses to the specific questions in the consultation document are set out in Appendix A. This covering letter outlines our overall views on the issues raised in the document.

First, the Foundation agrees that there is enormous merit in developing international accounting standards for the public sector and hence we support the need to enhance IPSASB’s governance. However, on the options for IPSASB governance set out in the consultation document, we do not see the first option in the paper (referred to as option 1 in the text and as (a) in question 1 of the specific questions to consider) as being achievable in anything other than the long-term. As the document acknowledges, the Foundation’s current intention is to look at the scope of its activities as part of the next review of the structure and effectiveness of the organisation, which is scheduled to start in 2015. Even then, there is no guarantee that any decision would be made to expand the scope of activities to encompass IPSASB. Both the Trustees and the Advisory Council have considered carefully the implications of this proposed option in the consultation document, which were first set out in a paper to the Advisory Council at its meeting in February 2014 (available on the Foundation’s website) and considered by the Trustees at their meeting in April (the relevant extract from the paper for that meeting is attached at Appendix B). In forming their view, the Trustees took note of the Advisory Council’s view that any such expansion would endanger the Foundation’s current priorities, raise significant funding issues and raise serious organisational issues.

Given the above, from the Foundation’s perspective, the aim is to achieve a durable solution to enhance IPSASB’s governance that will be credible and sustainable for at least the medium-term. In

our view, we think that option 2 (referred to as (b) in question 1) as set out in the document could provide a practical solution. While we acknowledge that there could be a perception issue of IPSASB remaining under the auspices of IFAC, we note that the standard-setting bodies subject to PIOB oversight also remain within IFAC. With public sector-specific monitoring and oversight, we think that this perception can be overcome. That monitoring and oversight would best be provided by the international treaty and other organisations represented on the IPSASB Governance Review Group, with the possible addition of the United Nations (which is responsible for national accounts’ standard-setting and where the UN Conference on Trade and Development, UNCTAD, in particular, has played a role on accounting standards issues for a number of years). The organisations, in particular those of the joint Chairs of the Review Group, already have the relevant expertise in public sector accounting issues, have a specific interest in seeking to further improve fiscal transparency across all economies, including through the development of a global architecture of fiscal transparency norms and standards such as IPSASs and would provide the political legitimacy and the incentive that is needed for such a sensitive undertaking. As suggested in the consultation document, we think that the monitoring and oversight functions could be carried out by a single body. Such a body would, in our view, help to provide credibility and legitimacy to the standard-setting activities of the IPSASB.

Within this option, the current liaison arrangements between IPSASB and the IASB, as set out in the current Memorandum of Understanding (MoU) between IFAC and the IASB, would continue. The MoU sets out the relationship between the IPSASB and the IASB, including regular liaison meetings between the two Boards, the IASB having observer status at IPSASB meetings, and provision for input to be given by the technical staff of the IASB to specific IPSASB technical projects.

Yours sincerely,

Michel Prada  
Chairman of the Trustees  
IFRS Foundation

Hans Hoogervorst  
Chairman of the IASB

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2 See, for example, the IMF staff paper Fiscal Transparency, Accountability and Risk dated August 2012, at:  
Appendix A

IPSASB Governance Review Group: Specific Questions to Consider

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?
b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
c. Reestabishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

The IFRS Foundation agrees that there is a need to strengthen the monitoring and oversight of the IPSASB. This has been an issue for some years, starting with the recommendation of the Likierman Review in 2004 that the then IFAC Public Sector Committee (PSC) should be brought within the scope of the Public Interest Oversight Board (PIOB). That recommendation was not pursued and, as the Review Group’s consultation document acknowledges, concerns about the governance and oversight of the IPSASB are among the reasons cited by national authorities for not adopting IPSASs. It has also been a factor in the decision by the European Union (EU) to develop European Public Sector Accounting Standards (EPSAS), with its own monitoring and oversight arrangements.

In terms of the options outlined by the Review Group, the IFRS Foundation does not view (a) as being feasible or achievable, at least in the short to medium term. The Trustees have examined this issue in each of the reviews of the organisation that they have carried out, most recently in the Trustees Strategy Review 2011, with an intention to look at it again in the next review of the structure and effectiveness of the IFRS Foundation, which is planned for 2015. As highlighted in the covering letter and Appendix B, the Trustees have reached this view having looked closely at the implications of this option.

As outlined in the covering letter, in our view option (b) above provides for a feasible and durable solution, with a single monitoring and oversight body.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

The proposed remit looks acceptable as far as it goes, but is incomplete. For example, item (iii) should be disaggregated, as in our view it deals with three different issues (strategy, work programme and budget). We also think that the monitoring and oversight body should take on the responsibility of establishing IPSASB’s operating procedures, consultative arrangements and due process, although in the first instance IPSASB’s current arrangements could be ‘grandfathered’, and reviewing compliance with them. In articulating the distinct parts of the remit, we would encourage the Review Group to look at those parts of the IFRS Foundation’s Constitution that set out the powers and duties of the Trustees (see Sections 12, 13 and 15 in particular) and the responsibilities of the Monitoring Board (section 19), with further details of the duties of the latter being set out in a Memorandum of Understanding (MoU)
In terms of other issues, the remit as outlined in the consultation document implies that ensuring that the public interest is served is part only of the monitoring function. A commitment to act in the public interest should pervade all levels: standard-setting; oversight; and monitoring, and this should be made clear.

**Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?**

**Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?**

Our views on the composition of the IPSASB monitoring and oversight body are set out in the covering letter.

We note that, in relation to the proposed composition of the monitoring body, the consultation document states that users of public sector financial information are numerous, with diverse interests. However, it makes no mention of the fact that IPSASB itself, for the purposes of its Conceptual Framework\(^3\), identifies the primary users of General Purpose Financial Reports (GPFRs) as service recipients and their representatives and resource providers and their representatives.

**Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.**

The consultation document is unclear on whether the responsibility for funding IPSASB should also be the responsibility of the monitoring and oversight body. Ideally, this would be the case, but it does bring with it significant challenges. An advantage of option 2, as acknowledged in the consultation document, is that it is expected that the current funding of IPSASB’s activities could be maintained.

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Option 1 – Possible Implications for the IFRS Foundation

1. Option (1) (extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB) would have significant implications for the Foundation and the Monitoring Board. The Monitoring Board is considering its proposed position on the consultation document and a representative from the secretariat was present at the Advisory Council meeting in February. In February, the staff sought the views of Council members on the issues outlined in the consultation document and the implications for the IFRS Foundation of Option 1, in particular on the following areas:

The Foundation's current mission: Has anything changed since the Strategy Review?

2. The Foundation’s primary objective, as set out in the Constitution and reaffirmed in the Strategy Review, is to develop a single set of high quality globally accepted financial reporting standards that should serve investors, other participants in the world’s capital markets and other users of financial information in making informed resource allocation and other economic decisions. Some take the view that the current mission does, and should, incorporate the public sector, not least given the market for government securities, and the need for high quality financial reporting in that sector. This is a theme of Kevin Stevenson’s presentation to the Trustees at this meeting. However - as evidenced at the Advisory Council discussion in February (see below) - this is not a majority view.

3. In the staff’s view, the situation has not changed since the conclusion of the Trustees’ Strategy Review, such that the Foundation should accelerate any consideration of expanding the scope of its mission in line with Option 1. The IASB’s current agenda remains a work-in-progress, with a number of important convergence projects still to be completed, and the Trustees have been kept updated on the challenges and problems in achieving it.

4. In addition, the specific issue of the governance of IPSASB has been outstanding for around a decade. The consultation document also emphasises the need for improvements to be made in public sector financial reporting practices in the wake of the financial crisis, referring to (in Appendix B to the document) the call from the G20 in February 2013 for the IMF and the World Bank to look at the transparency and comparability of public sector reporting. But again, the issues regarding public sector financial reporting in general have not changed since the Strategy Review report.

Political challenges: legitimacy

5. One of the issues IPSASB has faced is in gaining legitimacy and authority for its standards. As the consultation document makes clear, that has had an impact on national authorities not adopting IPSASs. That said, in many jurisdictions, responsibility for public sector financial reporting rests with governments, which may not want to cede that responsibility, in particular to a private sector entity. As a private sector organisation with a public interest mission, the IFRS Foundation has faced and

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is still facing similar challenges. We have been working hard over the past years to achieve legitimacy and authority, as witnessed by the number of jurisdictions that now require or permit the use of IFRS. Achieving legitimacy and authority for IPSASs would be even more challenging, as would be the risks of politicisation of the standards. The challenge is made even more daunting given the fact that a major jurisdiction (the EU) is proposing to adopt a different approach, even if it envisages close co-ordination with the IPSASB.

Funding and operational challenges

6. The consultation document makes a brief number of references to funding. Interestingly, it does not refer to funding as coming within the remit of the proposed monitoring and oversight bodies. It is therefore not clear whether the responsibility for funding IPSASB would remain with IFAC, whichever option for monitoring and oversight is followed. But this is a fundamental issue.

7. In the option of extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB, the Review Group takes the view that costs of the IPSASB oversight would only be “incremental” to those already being incurred. However, the Review Group acknowledges that the additional costs would need to be met for which no immediate source of funding is available. Looking at the costs of the PIOB as a precedent, in 2012 its total expenses were €1.4 million5 (around £1.17 million), which we would see as being more than “incremental”.

8. In the staff’s view, responsibility for funding should rest with the oversight and monitoring functions. But we recognise that under Option 1 this has significant implications for the Foundation, particularly if it took on responsibility for IPSASB to achieve synergies between standards for the private and public sectors (see below). The consultation document notes that IPSASB’s total budget in 2012 was US$2.3 million in 2012, with half the funding being provided by IFAC member bodies, around a quarter from the Government of Canada and CPA Canada, with the balance coming from smaller contributions (including from the Asian Development Bank, the New Zealand Government and the World Bank). IPSASB has faced, and continues to face, significant challenges in raising funding and the current level of funding is very much at the low end of the scale for operating an effective board. It is also the case that the IFRS Foundation also faces significant on-going challenges in securing stable and sustainable funding for its existing activities, and adding any responsibility for funding IPSASB activities (even if only for oversight) would add to those challenges. Without an assurance on the future funding of IPSASB itself being made, we think it is difficult to see how Option 1 can work effectively. In our view, this is an important point that the Foundation should emphasise in its response to the consultation document.

Operational challenges

9. The consultation document is largely silent on the operational challenges that Option 1 would present. Even if only responsibility for governance and oversight came within the Foundation, there would be implications for staffing, procedures and associated resources in servicing the expansion in responsibilities. If responsibility for IPSASB also came within the Foundation, we believe that the operational implications would be

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significant, at both the operational and technical levels. For example, the Trustees would become responsible for the nomination and appointment of IPSASB members (who are currently part-time and whose costs are mostly borne by the members or their nominating organisations, with only the possibility of the travel expenses of the 3 public members of IPSASB being covered by IFAC). The staffing would also need to be re-examined: the IFRS Foundation currently employs around 70 technical staff; IPSASB has around 7.

**Other implications and challenges**

**Governance: The Foundation’s public accountability link to the Monitoring Board**

10. The consultation document notes that a desirable characteristic of a standard-setting model is accountability to the public interest. We agree. The Monitoring Board provides that accountability link for the IFRS Foundation. It was established specifically to establish a formal relationship between capital markets authorities and the Foundation in line with our capital markets mission as outlined above. The Review Group acknowledges that the composition of a monitoring body in respect of IPSASB “is more complex”. The Monitoring Board is currently working through the implementation of the recommendations of its review of the Foundation’s governance in 2012, in particular in expanding its membership and working on its approach to assess current and prospective Monitoring Board members against its membership criteria. Nonetheless, the Monitoring Board as it is presently constituted is focused on financial markets regulation and composed of securities regulators. The implications and challenges of Option 1 for the Monitoring Board and its formal relationship with the Foundation would need to be considered carefully, including the issue of whether it would be feasible to have one Monitoring Board covering both the IASB and IPSASB, or whether should there be two parallel boards and how the representation of authorities having competence with regard to public sector finance would be achieved.

**Governance: The Trustees’ oversight**

11. The consultation document proposes that the oversight body should comprise individuals who have both an appropriate technical competence in the accounting and financial reporting area, and recognised experience of the public sector. At present, the IFRS Foundation Trustees comprise 22 individuals who are selected for their understanding of, and sensitivity to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world’s capital markets and by other users of corporate accounts. The IFRS Foundation Constitution (Section 7) requires that the Trustees “shall comprise individuals that, as a group, provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and officials serving the public interest”.

12. The staff are aware that there are a number of national precedents where one oversight body covers standard-setting in both private and public sectors (such as the USA and Australia, although in the US there is a separate, specific body dealing with standard-setting for the Federal Government), but models vary around the world, with responsibility for public sector standard-setting and any oversight often remaining within the preserve of governments. The varying models appear not to be dependent on whether the jurisdiction is supportive or not of long-term convergence between standards for the private and public sector.
13. Option 1 would have implications for the composition of the current body of Trustees and how an appropriate balance might be struck so that the Trustees as a group would reflect a suitable experience of the public sector. Would there, for example, need to be a separate public sector sub-committee of the Trustees, or a parallel body of Trustees? Making any change to the Trustees would be a constitutional issue and, in the staff’s view, the appropriate process to consider any such change would be as part of the next review of the IFRS Foundation, which is scheduled to start in 2015.

Technical issues

14. The consultation document focuses on the governance and oversight of IPSASB. If Option 1, as limited to governance and oversight, was pursued it would have implications, but they could be managed in line with the current liaison arrangements between the IASB and IPSASB. The IASB-IFAC MoU also contains a provision that, in the medium to longer term, the two boards will mutually consult on projects where both parties are likely to benefit from consideration of both private and public sector perspectives. The technical staff are starting to liaise with their counterparts at IPSASB on their respective projects on emission trading schemes.

15. More broadly, there is a view that combining responsibility for standard-setting for both the public and private sectors would bring with it advantages of synergy. But that is not the focus of the present consultation.

General views on the consultation document

16. The Review Group takes the view that national standard setters for the public sector are often inherently conflicted on a standard-setting body by the fact that they are working under the auspices of ministries of finance that are subject to these standards (consultation document, page 12). But the consultation document also notes (on page 5) that standards in certain areas (such as fiscal transparency) are set by the relevant international treaty-based organisation body (the IMF in the case of fiscal transparency), going on to state that the “legitimacy and authority of these standards derive from that granted to these organisations by the national governments who are their members, and who participate in their governance”.

17. The consultation document focuses on concerns about the governance and oversight of IPSASB being among the reasons for national authorities not adopting IPSASs (consultation document, page ii), but as noted in the European Commission documents (which propose the development of European Public Sector Accounting Standards, EPSAS), there are other significant challenges and issues that prevent them from adopting IPSASs.

18. The staff view is that there is also a need to consider carefully the main implications of the EU’s decision to develop EPSAS, rather than adopt IPSASs, bearing in mind that the EU’s decision in 2002 to adopt IFRS (as adopted in the EU) from 2005 provided a major catalyst to the adoption of IFRS around the globe.
Advisory Council discussion

19. The IFRS Advisory Council considered the consultation document and all the issues outlined above in this paper at its meeting on 24 February. The summary report of the meeting notes the following:

“7. The Council intensively discussed the idea that the IFRS Foundation and the Monitoring Board should extend the scope of their activities to encompass the International Public Sector Accounting Standards Board (IPSASB) as proposed by an IPSASB Governance Review Group chaired jointly by representatives of the IMF, the OECD and the World Bank. OECD representative presented the work of the group. There was broad consensus that public sector accounting needs to be improved. There was, however, also broad consensus that it would not be feasible, at least not in the short term, to extend the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB. Members expressed strong concerns that such an approach would endanger the Foundation’s priorities, raise severe funding issues and have an undesirable organisational impact (e.g. composition of the Board of Trustees and Monitoring Board). Additionally, members were very concerned that such an approach would, to a very great extent, increase the political pressure on and political interference with the Foundation’s activities. Some members expressed the view that having IASB and IPSASB under one roof should be the long term aspiration due to the far reaching similarities between public sector accounting and private sector accounting. Other members, however, questioned whether these similarities are indeed very strong. Finally, members questioned whether the IPSASB’s governance is truly the most important reason for the legitimacy issues that IPSASB faces”.
April 15, 2014

The IPSASB Governance Review Group

Ladies and Gentlemen:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to your Consultative Paper relative to “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)”. We are pleased that your Review Group has been established to address issues concerning the oversight of the IPSASB. Our Consortium has been disappointed that recent IPSASs only apply to the accrual IPSAS and does not recognize the Cash Basis IPSAS.

2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to our membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

3. We believe that the following should be considered during the IPSASB standard setting process:

   a. Many countries do not have the capacity or software to implement the accrual IPSAS. Consequently, these countries implement Part 1 of the Cash Basis IPSAS until they develop their capacity to transition to the accrual IPSAS. As such, they prepare the two required financial statements (Budget to Actual Comparative Statement and Cash Receipts/Cash Payments Statement). As they transition to the accrual IPSAS, many countries will implement the options in Part 2 of the Cash Basis IPSAS prior to implementing the accrual IPSASs.
b. As the developing countries attempt to implement the Cash Basis IPSAS, they encounter difficulties identifying their government entities and preparing whole-of-government financial statements. To assist the developing countries in their implementation of the IPSASs, our Consortium is currently field testing an IPSAS Compilation Guide for Developing Countries (see www.icgfm.org). This Guide has six stages that provide a structure for the developing countries to follow as they move from the Cash Basis IPSAS to adoption of full accrual accounting in accordance with the accrual IPSAS. Our Guide is being developed as a companion document to the GFS Compilation Guide for Developing Countries published by IMF in 2011.

c. The Cash Basis IPSAS is recognized as Generally Accepted Accounting Principles (GAAP) by those countries that have fully implemented Part 1. Thus, the Supreme Audit Office performs their financial audits of the financial statements in order to express an opinion on fair presentation.

d. The IPSASB appointed a task force to review the Cash Basis IPSAS for possible amendments and the task force made their recommendations in 2010. Since no action was being taken on the task force recommendations, our Consortium requested an audience with the IPSASB in 2012. Our request was granted for a meeting with the IPSASB in New York in December 2012 and our comments were well received. However, no action has been taken since that date to implement any of our recommendations.

e. When the IPSASB was originally established, a consultative group was appointed. However, to the best of our knowledge, this group has never been consulted on any matters pertinent to the Board’s deliberations.

4. Relative to our thoughts above, our responses to the comments on the specific questions are as follows:

a. **Question 1.** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor: a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees? b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC? c. Reestabishing the IPSASB outside of IFAC with its own monitoring and oversight bodies? d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe. **Response.** Agree. Our Committee believes there is a need for a fundamental reconsideration of the underlying assumptions as well as governance of the IPSASB. In our view the objective of harmonization of public and private sector reporting (IPSAS and IFRS) is fundamentally flawed. Public sector financial reporting is driven by the need to report in accordance with the UN SNA as interpreted in the IMF GFS Manual or (for Europe) ESA. Hence the objective of the IPSASB should be to develop financial reporting standards consistent with GFS that enable the preparation of auditable financial statements. The IFRS should be used to inform this process but it is simply not feasible to be consistent with both GFS and
IFRS, and the former should take precedence. Using this approach we might begin to see implemented standards for public sector reporting. If the above objective is accepted then it follows that the major institutions involved - IMF, UN, EU - should have a major role in the governance of the IPSASB. These should support both professional accountants and other stakeholders. But such a restructuring is so radical only Option (c) is feasible. However, Option (b) would be our preference if the restructuring could be achieved since it is the most expedient and logical.

b. **Question 2:** Do you agree with the proposed remit for the *IPSASB monitoring and oversight body(ies)* in section IV, paragraph A? Are there other issues that should be addressed? **Response.** Agree especially with the need for a Consultative Advisory Group. Such a Group is only productive if they are in fact consulted relative to issues being deliberated.

c. **Question 3:** Do you agree with the proposed composition of the *IPSASB monitoring body* in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented? **Response.** Agree since it would permit organizations such as ours to be heard.

d. **Question 4:** Do you agree with the proposed composition of the *IPSASB oversight body* in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented? **Response.** Agree since it would permit highly qualified individual with a public financial management background in organizations such as ours to be heard.

e. **Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe. **Response.** No other aspects suggested.

5. We appreciate the opportunity to comment on this CP and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at [jhughes@odu.edu](mailto:jhughes@odu.edu) or 757.223.1805.

Sincerely,

ICGFM Accounting Standards Committee
Jesse W. Hughes, Chair
Iheanyi Anyahara
Anthony Bennett
Steve Glauber
Kennedy Musonda
Hassan Ouda
Anne Owuor
Michael Parry
Maru Tjihumino
Andrew Wynne

Cc: Manuel Pietra
    President, ICGFM
April 30, 2014

The Chairs
The International Public Sector Accounting Standards Board Review Group
c/o Organisation for Economic Co-operation and Development
By email: IPSASB@oecd.org

**PAPER: Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board**

Dear Review Group Members:

IFAC welcomes the opportunity to comment on the International Public Sector Accounting Standards Board Review Group’s (the Review Group) proposed governance arrangements for the International Public Sector Accounting Standard Board (IPSASB) detailed in the Consultation Paper (the Paper). This matter has been ongoing for several years and we appreciate the efforts of the Review Group in working toward an enhanced set of robust and efficient governance arrangements.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

This response has been prepared following consultation across our broad constituent base, recognizing that some of IFAC’s stakeholders may have different views on the issues presented below.

**General Comments**

IFAC believes that this review represents an opportunity to enhance the governance arrangements of the IPSASB in a timely manner. Importantly, it is also an opportunity to reflect the specific needs of the public sector; including opportunities for governments to engage with, and be an integral part of, the standard-setting process and its oversight, while maintaining the independence of the process.

IFAC has considerable experience and expertise in facilitating the establishment of monitoring and oversight arrangements for international standard-setting boards, which encompass a combination of private sector and public sector roles and are seen to operate in the public interest. As such, IFAC is well placed to provide a valuable contribution to establish monitoring and oversight arrangements for the IPSASB, along with continuing to play an important role in supporting and facilitating its operation.

For several years, IFAC has been active in looking at options to enhance the governance of the IPSASB and for it to have arrangements similar to those for other international standard-setting

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1 The term “governance” hereafter to refer specifically to “monitoring” and “oversight” dimensions of governance.
boards supported by IFAC\textsuperscript{2}. In 2011, IFAC launched a targeted consultation on proposals for oversight for the IPSASB and there was acknowledgement by respondents of the need to have in place a set of fit-for-purpose arrangements. The need to enhance governance arrangements for the IPSASB was reinforced by various stakeholders in the public consultation on the governance of standard-setting arrangements undertaken by the Monitoring Group (MG) in 2012\textsuperscript{3}.

It is also worth noting that key stakeholders continue to be positive about, and supportive of, the standard-setting work of the IPSASB. This means that governance arrangements need to be enhanced within the context of an already well-functioning board and are motivated from the perspective of completeness rather than to address any perceived shortcoming with the IPSASB’s operations.

**Status and Importance of IPSASs**

Consistent with its message for the past several years, IFAC continues to call on governments to improve their transparency and accountability for the stewardship of their citizens’ resources, as well as to providers of capital to governments. We believe that high-quality financial information is a pre-condition for informed decision making and improved societal outcomes. IPSASs are the only global and comprehensive set of a standard for the public sector.

Strengthening the governance of the IPSASB will enhance confidence in the standard-setting arrangements. This is important as some have commented that the absence of monitoring and oversight arrangements serves as an impediment to the adoption of the standards. IFAC recognizes that there are some who subscribe to the view quoted in the conclusions of the Review Group that “if IPSASs are to play a role which they have the potential to do in improving government accounting practices, it is essential to resolve questions related to their governance...” However, the reality is that IPSASs are already a major global influence on financial reporting in the public sector. Strengthening the current governance arrangements will further enhance the credibility of IPSASs and their influence on public sector financial reporting.

Over the last decade there has been an increasing interest in IPSASs and a strong trend toward their adoption, which is anticipated to continue. Currently, over 80 governments and public sector entities have either adopted or have processes in place to adopt IPSASs, directly or indirectly, including the government of New Zealand; South Asian countries including Thailand, Indonesia, and Malaysia; African countries such as Nigeria and South Africa; Latin and South American countries such as Peru and Brazil; and some European countries, including Switzerland, Austria, Lithuania, and Estonia. A number of international organizations have also adopted IPSASs; for example, the United Nations Systems, the Organisation for Economic Co-operation and Development (OECD), and Interpol. A European Commission (EC) report issued during 2013 considered the suitability of IPSASs for the member states of the European Union and described the standards as an “indisputable reference” in the development of European Public Sector Accounting Standards (EPSASs). Other countries,

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\textsuperscript{2} Other standard-setting boards supported by IFAC are: the International Auditing and Assurance Standards Board (IAASB), International Ethics Standard Board for Accountants, and International Accounting Education Standards Board.

\textsuperscript{3} Following this consultation (in which many respondents indicated a preference for the IPSASB to be subject to oversight by the Public Interest Oversight Board (PIOB)) the MG organized a roundtable of invited organizations to seek views on whether the PIOB should assume responsibility for oversight of the IPSASB. The decision reached by the MG following that roundtable was that it was not appropriate for the PIOB to assume such oversight responsibilities. On the basis of this decision, IFAC does not offer comments with respect to oversight by the PIOB being considered as an option.
including Russia, India, and China, have also signaled their intention to adopt, though specific deadlines have not been set.

Adopters of IPSASs are keen to see the IPSASB’s agenda continue to make progress. Many organizations have built adoption activities into their plans based on the IPSASB’s public timetable for completion of its current projects. The credibility of the Board and the timing of its outputs may be put at risk if there is undue delay in the completion of projects due to protracted implementation of enhanced governance arrangements. Accordingly, IFAC shares the concern of the Review Group that the implementation of new governance arrangements should not impede the IPSASB and its standard-setting efforts.

Key Characteristics of Governance Arrangements

IFAC believes that robust governance arrangements designed to protect the public interest are an essential feature of high-quality standard-setting arrangements for the IPSASB. The objectives in designing such standard-setting arrangements are set out in IFAC’s Policy Position Paper 3: International Standard-setting in the Public Interest and include three critical aspects:

1. The overriding objective in the design of the standard-setting process is to ensure that the institutional arrangements are, and are seen to be, properly responsive to the public interest at a global level.

2. A key issue for the public interest is the legitimacy and independence of the standard-setting process, in order to increase public confidence in the standard-setting arrangements and, ultimately, to strengthen financial reporting. Key elements of the arrangements to increase legitimacy and independence are an external process for monitoring and oversight of standard setting, and increased transparency.

3. It is important to maintain the technical competence of the standard-setting process while ensuring that there is a sufficiently strong element of public oversight to achieve the aforementioned two objectives.

In 2003, an opportunity existed to revise the governance arrangements for other standard-setting boards supported by IFAC. These arrangements, which are still in place today, were established to serve three standard-setting boards developing professional standards for audit, ethics, and education, as well as the IFAC Member Body Compliance Program. In a similar manner, the current review of IPSASB governance represents a unique opportunity to have in place purpose-built governance arrangements for the IPSASB that are responsive to the specific needs of the public sector accounting standard-setting process. Accordingly, IFAC believes that independence, credibility, and legitimacy can be achieved by the adoption of measures that do not necessarily mirror existing arrangements for other international standard-setting boards but deliver against the key characteristics of effective governance arrangements.

In IFAC’s view, Option 2 in the Paper—Establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC—provides the best means of achieving a set of arrangements that are both fit-for-purpose and provide an enduring basis for meeting the governance

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4 This option is denoted by the number ‘2’ in the Paper, but is referenced as dot point B in Question 1 of Section V of the Paper. In our responses to the questions outlined in Appendix A, we make reference to Option B to be consistent with the question asked.
needs of the IPSASB. In our detailed responses to the questions in the Paper, we have outlined how this option could be operationalized.

The introduction of these measures will not be considered credible if they come with any form of caveat that the ensuing governance arrangements are considered temporary or transitional. As with any governance arrangements, best practice would indicate a review at some future date to ensure that the arrangements are operating as intended, and to evaluate whether further enhancements may be required. IFAC supports a five-year period, which it views as being an appropriate length of time for any new arrangement to be given an opportunity to be properly implemented and applied.

IFAC acknowledges that implementing enhanced governance arrangements alone may not address the concerns of some stakeholders about the need for governments to play a more active role in the standard-setting arrangements for IPSASB. To address those concerns, in addition to establishing a governance body there may be merit in considering the introduction of other forms of engagement and consultative arrangements, such as a Consultative Advisory Group (CAG), to provide governments with the opportunity to provide strategic and technical input to the IPSASB. IFAC recognizes that the involvement of governments in the standard-setting process is an important issue. However, we do not address potential consultative arrangements further in this response letter as it goes beyond the primary focus of the consultation—that is, monitoring and oversight arrangements.

Funding Requirements

It is important to identify a sustainable funding model that provides for the full scope of IPSASB operations and effective governance activities. While IFAC is committed to funding the operating activities of IPSASB to at least its current level, it has not projected to fund either increased operating costs as result of demands for greater activity or the establishment and operation of enhanced governance arrangements.

In the proposed governance model outlined in Appendix B, IFAC suggests that an appropriate cost sharing arrangement be developed so that the overall cost of governance does not fall disproportionately on any one body. As proposed in Appendix B, IFAC believes it is appropriate that it become one of the members of the governance group. In this position it would be expected that IFAC, along with all other members of that group, should meet their own costs to participate in that body and agree a formula for the overall costs of governance; with the costs to be shared by members of the governance group and others who have an interest in the enhancement of the credibility of the standards that would be achieved by having oversight arrangements in place. We acknowledge that some see the funding of oversight arrangements by IFAC as giving rise to a potential conflict of interest.

Next Steps

IFAC is fully committed to attaining workable and credible enhanced governance arrangements for the IPSASB and would be pleased to assist the Review Group with its efforts.

Our responses to the questions in the Paper are set out in Appendix A and the details of how we think the second option could be operationalized are set out in Appendix B. We have also identified in Appendix C some points in the Paper that would benefit from clarification should they be included in the Review Group’s final recommendations.

IFAC believes that it is in the public interest to ensure that this consultation follows an appropriate due process. That is, that the consultation continues to be conducted in an open and transparent manner,
all feedback to the Paper is considered, and that stakeholders are allowed to fully participate, where appropriate, in the development of the final outcome. We think it is particularly important that governments are engaged in the process of taking these proposals forward so that, from their perspective, these measures are considered to be fit-for-purpose.

Finally, IFAC believes that it is vital that this process reaches a conclusion by the end of 2014 so that efforts can be directed toward implementing enhanced governance arrangements during 2015.

Please contact me should you wish to discuss any of the matters raised in this letter.

Yours sincerely,

Fayezul Choudhury
Chief Executive Officer
Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor:

a. Monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees?

b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?

c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?

d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

IFAC agrees that there is a need to strengthen the governance of the IPSASB and this is evidenced by the consultation undertaken by IFAC in 2011. That need was reaffirmed by many constituents in their responses to the public consultation on governance arrangements for standard-setting, conducted by the MG in 2012.

In IFAC’s view, it is important to be responsive to concerns raised by some that the lack of formal public interest oversight is a barrier to adoption. Also, we consider that the test of any new governance arrangements for the IPSASB will be whether they are seen to safeguard the independence of the standard-setting process by establishing appropriate and proportionate checks and balances, which operate in an efficient and effective manner—with the ultimate test being that they enhance the legitimacy of the IPSASB’s pronouncements.

IFAC believes that Option B (described in the question above), executed through a single governance body (refer to our response to Question 2), provides the best means of achieving a set of governance arrangements that are fit-for-purpose and meet the specific need for enhanced governance of the IPSASB. This approach addresses the governance function in a workable and pragmatic way and can be implemented in a timely manner with minimum disruption to the operation of the IPSASB and its standard-setting activities.

Beyond the architecture of these governance arrangements, IFAC believes an overriding consideration should be to establish and maintain a strong working arrangement between the IPSASB (as the standard setter), the governance body (protecting the public interest), and IFAC (facilitating and supporting the IPSASB).

IFAC does not agree with the challenges presented in the Paper with respect to Option B:

- The Paper states that a separate body that remains under the auspices of IFAC would not benefit from the “accumulated experience and expertise in public interest oversight established by the IFRS Foundation’s MB and Trustees”. However, IFAC believes that liaison and consultation by a newly established governance body with the Monitoring Group, Monitoring Board, PIOB and the International Financial Reporting Standards Foundation (IFRSF), as appropriate, could be readily facilitated to ensure that there is appropriate access to relevant experience and expertise.
IFAC also questions the assertion that “overall cost of oversight would likely be increased, as it would not benefit in economies of scale…” compared with Option A. Based on the IFRSF staff paper prepared for the February 2014 IFRS Advisory Council meeting, it is not apparent that the incremental costs to absorb the governance of the IPSASB within the IFRSF would be inconsequential. It also raises broader operational and technical implications about the IPSASB coming within the IFRSF governance structure.

IFAC is committed to enhanced transparency and accountability in the public sector and this is manifest in our past and continuing support of the IPSASB. We acknowledge that some view the financial support provided by IFAC to the IPSASB as having implications for the perceived independence of the IPSASB. In our view, our proposals for enhancing IPSASB’s governance arrangements address those concerns and provide appropriate safeguards for the independence of the standard-setting process.

IFAC does not believe that Options A and C are viable options given the imperative for fit-for-purpose governance arrangements that can be implemented within a reasonable timeframe. The Review Group acknowledges in the Paper that Option A would “present several difficult practical challenges”—we agree with those concerns.

In terms of Option C, re-establishing the IPSASB outside of IFAC—with its own monitoring and oversight bodies—is an option that lacks any detail and appears to be a hypothetical construct at this stage. If this option is to be pursued, IFAC believes a new initiative would need to be launched to outline how such an approach would work and how it would satisfy the overriding public interest objective.

In IFAC’s view, there are substantial challenges in achieving the necessary political consensus required to develop or significantly revise existing institutional arrangements in order to practicably implement either Options A or C. However, we acknowledge that if the right circumstances exist and the opportunity arises in the future, careful consideration and analysis would need to be undertaken to determine whether other options: would provide for more effective and credible oversight than the model in place at that time; and would enhance the legitimacy of the standards issued. As part of that analysis, consideration might also be given to whether any changed arrangements would achieve the goal of longer term convergence of private sector and public sector accounting standard setting governance that some strongly advocate and which is presented as a reason for supporting Option A.

Regardless of the option selected, as noted previously IFAC shares the concern of the Review Group that the implementation of new governance arrangements should not impede the IPSASB and its standard-setting efforts.

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<th>Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?</th>
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In the response to Question 1 above, IFAC indicates a preference for Option B, which is described in the Paper as requiring the establishment of two separate bodies. The Paper does not delineate the specific remit of each body in the proposed governance structure. It does, however, highlight three aims: “(i) to ensure that the public interest is being served by standard-setting activities (monitoring function), (ii) establish the standard-setting strategy and governance arrangements, and (iii) oversee their implementation (oversight function)”. IFAC agrees that ensuring that the public interest is being served by standard-setting arrangements is the raison d’être for enhancing governance arrangements.
for the IPSASB. However, we strongly believe that “establishing the standard-setting strategy” should be separated from the “governance arrangements”. In IFAC’s view it is the role of the IPSASB to establish its standard-setting strategy as an independent standard-setting board, subject to appropriate public interest oversight.

IFAC has identified the following essential responsibilities for the oversight and monitoring functions\(^5\), which include:

(a) Approval:
   - of appointments made by the Nominating Committee for the selection of the members and chair of the standard-setting board;
   - of the Terms of Reference for the IPSASB;
   - that due process is followed in the development and approval of standards;

(b) Review of the completeness of the strategy and work plan of the IPSASB; and

(c) Discharging public accountability for the operation of governance arrangements.

IFAC has previously commented that there is no one way in which governance arrangements should be defined and should operate, and different approaches can be equally effective in safeguarding the public interest\(^6\). Therefore, IFAC supports the Review Group’s view that “the monitoring and oversight functions could, initially, be merged and carried out by a single monitoring and oversight body”. As noted previously, IFAC’s view is that enhanced governance arrangements should be fit-for-purpose and implemented in a timely manner. With that in mind, we believe that there should be a single governance body. An assessment of the effectiveness of this model would be part of the review of the enhanced arrangements five years after they have been introduced (refer to fourth paragraph of section titled Key Characteristics of Governance Arrangements in our covering letter.)

**Question 3:** Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

As noted in our response to Question 2 above, IFAC believes that the “monitoring” and “oversight” functions should be combined into a single body. Accordingly, in the discussion below we refer to a single governance body.

IFAC believes it is important that individuals nominated and appointed to the governance body are suitably qualified, competent, respected, and exercise their responsibilities with the public interest clearly in mind. These individuals may be drawn from different sectors, including governments, providing the opportunity for broad-based participation in the governance arrangements for the IPSASB.

IFAC notes that the Paper draws on a set of competencies for the members of the governance body that are similar to those of IPSASB members. We question whether members of the governance body need to have “technical competence in accounting and financial reporting,” as their role is not to pass

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6 Refer to IFAC’s response to the Invitation to Comment (ITC): IASB and IFRS Interpretations Committee Due Process Handbook in September 2012.
judgment on the quality of the standards being set, but rather to oversee the process for setting those standards to ensure that appropriate due process has been followed. Membership of the governance body should not be seen as a proxy for well-functioning stakeholder participation in the standard-setting process through other means and consultative processes (refer to last paragraph of the section titled Key Characteristics of Governance Arrangements in our covering letter.)

While we agree that the membership of the governance body should include those “with recognized experience in the public sector,” we are not convinced that all members of the governance body would need to have such experience. For example, there may be merit in including individuals with international or national experience in the governance and oversight of international or national standard-setting, who can provide valuable insights and contributions about the standard-setting process and governance thereof, even though they may not have specific public sector experience.

IFAC respects the intentions of the Review Group to ensure the membership of the governance body is broad-based and balances the various interests in public sector financial reporting. However, IFAC is of the view that the governance body is likely to be less effective if it attempts to represent the entire IPSASB community. This would suggest the establishment of a very large and potentially unwieldy body. The size of the governance body should be such that it permits efficient and effective operation. IFAC believes that the priority in considering the composition of the governance body is to ensure that it comprises individuals recognized for their ability and commitment to safeguarding the public interest in the governance of the IPSASB.

**Question 4:** Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

Please refer to our response to Question 3 which recommends that “oversight” and “monitoring” functions should be combined into a single body.

**Question 5:** Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

IFAC has no further comments to make on the proposed governance arrangements for the IPSASB other than the points of clarification which follow in Appendix C.
APPENDIX B

IMPLEMENTATION OF OPTION B – KEY FEATURES

IFAC sets out below some suggestions as to how Option B could be operationalized having regard to the importance of the arrangements being both fit-for-purpose, and possible to implement within a reasonable timeframe and in an effective and efficient manner.

(a) Establishment and Membership

- Establishment of a single body charged with governance called the Public Sector Accounting Standards Governance Board (PSASGB).
- Membership of the PSASGB could comprise four permanent members—being appointed by the World Bank, IMF, OECD, and IFAC— as well as provision for an appropriate number of rotating members. The rotating members could be appointed by a Nominating Committee, which includes the four permanent members. Time period restrictions on individual members should be imposed (time periods to be determined).

(b) Role and Responsibilities

- The role and responsibility of the PSASGB should be clearly defined, and include:
  - oversight of the IFAC Nominating Committee process with respect to the nominations and recommended appointments to the IPSASB;
  - approval of the Terms of Reference of the IPSASB;
  - review of the completeness of the strategy and work plan of the IPSASB;
  - oversight of the due process of the IPSASB; and
  - public accountability for the operation of governance arrangements.

- The PSASGB would not provide technical input to the development of the standards or other pronouncements of the IPSASB. Organizations that are members of the PSASGB and that wish to comment on these aspects could do so by participating in the formal due process followed in the development of pronouncements and other consultative arrangements that might be established.

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7 It should be noted that there are a number of safeguards that currently exist to separate the work of IFAC from the independent standard-setting boards (including IPSASB) that IFAC supports. For example, the IPSASB’s strategy and agenda setting, work program, and decisions are entirely independent of IFAC. As such, we consider it appropriate that IFAC has a seat on the governance group that oversees the quality of the due process followed by the IPSASB. This is consistent with the model used in the oversight arrangements for the other standard-setting boards supported by IFAC, whereby IFAC nominates one member to the PIOB. That member has the same rights and responsibilities as all other members of the PIOB.
(c) **Operation**

- The PSASGB should have an appropriately resourced permanent secretariat (or a rotating secretariat with rotation every three years); best accommodated in one of the organizations holding permanent membership (other than IFAC).
- The PSASGB would operate on a consensus basis.
- All members of the PSASGB would meet their own expenses for travel and the exercise of appropriate oversight.
- The PSASGB would meet as necessary.
- The PSASGB would need to determine the most effective manner by which to conduct its oversight. Some form of direct observation of IPSASB meetings would be desirable but it would be the prerogative of the PSASGB to employ whatever evidence-gathering approach it considered most appropriate.
CLARIFICATIONS OF POINTS IN THE PAPER

The following comments aim to clarify two points included in the Paper, which may be misunderstood by people reading it who do not have a detailed knowledge of how standard-setting arrangements operate. In the event that the final report of the Review Group continues to address these matters, IFAC believes it would helpful to clarify the following points.

The Paper:

- Notes that the IAASB establishes standards for the “the corporate and financial sectors.” In fact, the IAASB sets standards that can be applied across all sectors for audits of financial statements and other types of assurance on financial information. The International Standards on Auditing (ISAs) are used as the basis for the comprehensive set of International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organisation of Supreme Audit Institutions (INTOSAI) and used for audits performed in the public sector. Furthermore, ISAs are used in many jurisdictions for audits of financial statements of private companies and small- and medium-sized entities.

- Appears to suggest a role for the oversight body that goes beyond what we understand to constitute “oversight” in stating that “in the absence of an oversight body, the mechanism for arbitrating between competing priorities remains unclear.” IFAC notes that typically it is not the responsibility of the oversight body to act as an arbitrator to resolve competing priorities in the work plan of an independent standard-setting board. The oversight body’s role is focused on forming a view on the quality of the process, and not in directly shaping the outcome of the standards development. It remains the prerogative of the standard-setting board to set its own priorities, balancing the views of constituents and its overall public interest considerations.
Message sent on behalf on Mr Alexandre Makaronidis, Head of Task Force EPSAS,

Dear EPSAS contacts,

We would like to bring to your attention that the World Bank, IMF and OECD have opened a consultation concerning the future governance of IPSAS. All stakeholders are invited to comment.

Best regards,

Anabela Nabais Rodrigues

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