

**PSC LONG TERM STRATEGY
ISSUES FOR DISCUSSION
(PSC MEETING – APRIL 2003)**

1. INTRODUCTION

The following identifies key strategic issues that need to be considered as the PSC enters the second phase of its standards-setting program and plans for the future.

This listing of issues is not intended to be exhaustive and members should raise at the meeting additional issues that need to be considered. I particularly welcome the input and the fresh perspectives of the new PSC members to this discussion.

2. BACKGROUND

PSC Strategy Papers

During late 1998 and 1999 a Strategy Sub-Group of the PSC developed documents which dealt with a strategic plan for the PSC and a proposal for additional funding for the medium term development of IPSASs.

During August and September 2000, Paul Sutcliffe and I prepared a document based on the work undertaken by the PSC's Strategy sub-group during 1998 and 1999. It outlined the:

- background to the PSC's Standards Program;
- the PSC's technical strategy as it moved through the first phase of its program and expectations of projects to be dealt with in subsequent phases of the program; and
- funding requirements.

This document was used in a number of presentations that Paul and I made in 2000 and 2001 to major constitutional groups and potential funders.

The document has been progressively refined and updated and now forms the basis of the PSC Paper *The Public Sector Committee's Standards Program: Background and Update*, which is made available to all members to support presentations. A general PowerPoint presentation that reflects the paper is also available, and is used as a basis for presentations. Members generally refine this presentation to fit their audience. I would welcome any suggestions on whether this material is useful and how it could be improved.

PSC Internal Review

At its meeting in May 2001, the PSC agreed that a task force of PSC members should conduct an internal review of PSC operations and report to the PSC on its findings. The task force reported to the PSC at its September 2001 meeting. The PSC identified a number of refinements to the report and agreed recommendations on key aspects of the PSC's ongoing operations. The PSC also directed me to present the recommendations to the IFAC Board at its November 2001 meeting.

I reported to the IFAC Board at its meeting in Miami in November 2001 as directed.

The final report of the internal review task force is attached as Item 16.3. As part of our discussion, members may wish to review and discuss the Recommendations emerging from the 2001 internal review.

OBJECTIVES OF PSC

The current objectives of the PSC as outlined in the *Preface to International Public Sector Accounting Standards* is to develop programs aimed at improving public sector financial management and accountability, including developing accounting standards and promoting their acceptance.

The *Introduction to the Public Sector Committee* explains:

“The terms of reference of PSC require it to develop programs aimed at improving public sector financial management and accountability including:

- developing accounting and auditing standards and promoting their acceptance;
- developing and coordinating programs to promote education and research; and
- encouraging and facilitating the exchange of information among member bodies and other interested parties.”

The PSC is developing IPSASs for application when the accrual basis or the cash basis of financial reporting is adopted.

The PSC bases its accrual IPSASs on the equivalent IAS/IFRS issued by the IASB, and amends them where necessary to take into account public sector views. The PSC is also dealing with certain public sector issues which are not addressed at all by the IASs/IFRs and has issued Study 14 dealing with the transition to the accrual basis and undertaken to review that document periodically.

For Discussion

The PSC internal review recommended that the PSC’s primary role should be that of an accounting standards-setter, and that over the next two years the PSC should encourage other IFAC Committees to deal with the public sector aspects of their mandate.

I believe it useful to consider whether our views on this matter have changed since the completion of the internal review.

RELATIONSHIP TO OTHER IFAC COMMITTEES

IAASB

As a consequence of the developing relationship between INTOSAI and the IASB, it is likely that the PSC will not be required to develop Public Sector Perspectives on the International Standards of Auditing in the future.

Ethics

The review of the IFAC Code of Ethics includes consideration of the Code's application to the public sector. Norbert Vogelpoth is participating in that review on behalf of the PSC. Norbert is supported by Jerry Gutu in these activities.

Compliance

IFAC is reassessing the way in which its compliance activity works. Prior to this reassessment the compliance committee was considering member body obligations in respect of compliance with IPSASs, and was developing a Statement of Membership Obligations in that regard. The Chair and Director had contributed to the development of these documents and Jerry Gutu was to have been involved on an ongoing basis.

For Discussion

It appears to me that the relationship between the PSC and other IFAC Committees is developing as we would wish. It may be time to consider formalizing this in relevant IFAC documents. In particular, in restating references in the *Introduction to the Public Sector Committee*, to the PSC's role in developing auditing standards and promoting their acceptance; developing and coordinating programs to promote education and research; and encouraging and facilitating the exchange of information among member bodies and other interested parties

WORK PROGRAM

PSC work programs for 2003 and 2003-2005 are included at agenda items 6.3 and 6.5. They reflect current assessments of work priorities, meeting times and staff resources.

A number of projects have been activated and have their own momentum. They will flow through to the PSC's meeting agenda as issues are developed and considered by Steering Committees, Consultants and staff. These include:

- Steering Committees on Social Policy Obligations, Non Exchange Revenues and Budget Reporting;
- projects on Impairment of Assets and Development Assistance; and
- harmonization – GFS, ESA 95, SNA, IPSASs. (In addition, a higher level strategic working group is being established to consider the ultimate harmonization of IPSASs, IFRSs and GFS.)

I believe it appropriate that we discuss the relative priority of the following projects, free of consideration of limitation on PSC meeting time and staff resources. These are projects/tasks that have been identified in our work program and promotional literature as matters that need attention. However, we have not undertaken significant work on them to date. If in retrospect we do not believe they remain of the same high priority we should reflect this accordingly in our literature:

- Development of the conceptual framework. Our current position is that we will monitor and, if appropriate, assist in the co-ordination of national initiatives and the initiatives of the IASB. Our literature (particularly our original strategy documents) and many of our constituents have noted the importance of developing a public sector framework.

FOR PSC DISCUSSION April 2003

- Review of existing IPSASs. The care and maintenance of existing IPSASs is recognized in our promotional literature. The importance of this aspect of the work program will increase significantly as the IASB completes its Improvements Project and other projects, and reissues existing standards.
- The IFRSs that have not yet been dealt with by the PSC. The report on the status of IASB projects at Item 6.6 of this agenda identifies the IASs/IFRs not yet reviewed by the PSC. That report also identifies whether or not the IASs/IFRs are currently subject to review by the IASB.
- The mechanisms by which IFRSs will be converted into IPSASs. In the first stage of the project, members undertook a full review of the IAS on which the IPSAS was based and redrafted the IAS where it was considered necessary to reflect public sector circumstances. This was a time consuming process as members considered in detail the existing wording of each IAS, revised that wording where appropriate, and ensured that all cross-references, linkages and consequential changes were made. It may well be that we need to consider alternative mechanisms to deal with the backlog of IASs/IFRs. One approach that is being contemplated by Australia as it moves to adopt IFRSs in 2005 is to adopt the text of the IFRS without change but to “wrap around” that text:
 - an Introduction which identifies the entities to which the IFRS applies and any necessary amendments to the “scope” of the document; and
 - an Appendix which identifies any requirements or commentary in the IFRS that does not apply to the public sector or needs to be interpreted in a particular.

This approach could also usefully be considered for application by IPSASs as we move forward.

The following projects have been identified on our work programs and strategy and promotional documents for some time, without action or plans for action in the near future. The question is should we remove them or reconfirm their priority:

- non-financial performance reporting
- public private sector arrangements
- measurement of heritage assets.

For Discussion

I believe it important that we consider whether the priority we have attached to projects on our longer term work program is appropriate, and whether there are any major “gaps” in it. In our discussions of this matter we again should consider the implications for IPSAS development processes, PSC meeting time and staff resources.

INVOLVEMENT WITH THE IASB

Currently our involvement with the IASB includes my participation in the IASB – Standards Advisory Council, the development of a PSC response to particular IASB Exposure Drafts (such as the Improvements Project), monitoring of the IASB work program through the standing IASB item on our meeting agenda, and ongoing staff contracts. The IASB have nominated Warren McGregor as their liaison member to our committee.

For Discussion:

I believe it appropriate that we discuss whether our ongoing involvement in the development work of IASB should be strengthened and how. For example, it may well be that the PSC should seek a similar status to other national standards-setters who join with the IASB and other national standards-setters to lead and/or contribute to the development of particular projects.

We should also consider our longer term relationship with the IASB, including whether the two standard setters should ultimately merge and, if so, in what time frame.

PROMOTION – LIAISON - COMMUNICATION

Having substantially completed the first stage of the work program, we must now consider whether we should identify a more sustained program of promotion of the IPSASs as a priority.

Agenda item 6.1 identifies the promotional/liaison/communication activities of PSC members, advisors, observers and staff. Clearly significant resources are devoted to these activities. I believe we should discuss whether:

- our efforts are appropriately focused;
- we are linked into the appropriate international and regional networks;
- we devote sufficient resources to monitoring the work of these bodies and identifying and following up on promotional opportunities.

It appears to me that we have alternative approaches:

- to perceive our role as being only the technical development of IPSASs. We would then treat our IPSASs as a general resource to be used by any who wish and the PSC would step back from the promotion of IPSASs and devote our resources to the development of the “product”;
- we may explore contracting organizations/individuals with the appropriate personal skills and contact to do the promotional work on behalf of PSC; or
- to acknowledge that promotion and communication is a responsibility of the PSC and to consider whether we are using our limited resources efficiently. We may also consider whether additional staff resources are necessary to assist us in this task and the skill set those staff should have.

For Discussion:

I believe it appropriate that we discuss what our role is in promotion of the IPSASs.

In considering this issue, I would also welcome members’ views on what additional promotional materials, if any, the PSC could usefully prepare. For example, should the PSC prepare:

- its own annual report along the lines of that currently issued by the IAASB; and/or

FOR PSC DISCUSSION April 2003

- a “prospectus” on the PSC’s Standards Program identifying such matters as:
 - general outcomes;
 - potential benefits of application of the existing and potential future IPSASs; and
 - benefits of the CFS, ESA 95, IPSAS harmonization program.

In considering these issues, we will need to consider its implications for staffing requirements. These are discussed below.

MEMBERSHIP – OBSERVER PROFILE

Currently all PSC members are appointed through the IFAC nominating committee and are from IFAC member bodies. However, PSC Observers, Consultative Group Members and Steering Committee members are not required to be members of IFAC member bodies. Consequently a broadening of our skill base is achieved through Observers and the Steering Committees.

The PSC membership is currently made up of 3 Preparers, 6 Auditors (I have included members of accounting firms in this group), 3 International Organizations and 1 “Other”.

In addition, the PSC has observers, with full rights of the floor, from ADB, European Commission, IMF, INTOSAI, OECD, UN, World Bank.

For Discussion:

I believe it appropriate that we consider whether our membership profile is appropriate and, if not, how we believe it should be strengthened, and any difficulties we perceive in that process.

In this context it is worth noting that the reconstituted IAASB includes a membership profile comprising 10 members nominated by member bodies, 5 members nominated by the Forum of Firms and 3 members appointed as public interest members.

There is therefore a precedent for considering whether the nomination base should be broadened.

FUNDING

The original PSC budget projected in the Strategy and Funding document prepared at the end of 2000 was for \$1m USD per annum. We have secured ongoing funding from the World Bank, IMF, Asian Development Bank (ADB) and from individual international funds to support the Budget Reporting and Development Assistance projects. In addition, the InterAmerican Development Bank has committed to matching the funding from the ADB. However, this falls short of the \$1m USD per annum projected as necessary to support the program over the long term. The cost savings to trim operations to fit with funding have been made in the following areas:

- the project has been operating at below staff establishment;

FOR PSC DISCUSSION April 2003

- the PSC has not incurred substantial translation costs. Translation costs have been borne by member bodies and other national and international organizations;
- the travel and promotion budget has been less than projected
- office establishment, rental and related office operating costs have been less than projected.

Apart from the savings on translation activities, cost savings have largely arisen as a consequence of operating below staff establishment.

Going forward additional cost savings may be made by reducing the number of copies of IPSASs that are printed and distributed to interested parties.

For Discussion:

As you will see from item 6.1, significant energies have been expended on fund raising by PSC members and staff. At one stage a consortium funding initiative looked promising, but that has faded.

We have been here before, but I believe it timely that we revisit the issue of how the PSC should be funded, likely sources of such funds and how we should approach potential funders.

STAFFING: ESTABLISHMENT and LOCATION

The PSC currently operates with three senior technical staff supported by an assistant project manager in Melbourne and one Secretariat staff member in New York. In addition, three consultants are engaged on key projects.

In my view, the permanent staff establishment is insufficient to support the technical and promotional work program that is necessary for an international standards setting body. I believe that a more suitable staffing profile of the PSC would be as follows:

- a Secretary General or the equivalent to promote the technical documents and develop and maintain key constituent relationships;
- a technical director to oversee and co-ordinate the technical work of the PSC staff and to liaise on a technical level with the IASB, international statistical and other agencies and national standard setters;
- three senior technical staff members to develop the technical projects and work with consultants as necessary;
- consultants to support staff as necessary; and
- appropriate support staff.

As we are all aware, there are proposals to move the PSC staff to New York to IFAC headquarters. While there may be significant benefits to IFAC from locating all their staff together, substantial additional costs will be involved and consideration needs to be given as to whether New York is the most suitable place to locate a public sector accounting standards setting entity.

For Discussion:

I think it appropriate that we provide our views on the appropriate level and location of PSC staff as input to any further deliberations that might take place on this issue.

NAME OF COMMITTEE

The 2001 report recommended that the name of the PSC be changed to the Public Sector International Accounting Standards Committee at the end of 2003. Since then the IAPC has set a precedent by changing its name to the IAASB. Should the name be changed?