

# **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).

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

### **PUBLIC CONSULTATION**

**January 2014**

## **ACRONYMS**

<b>FSB</b>	<b>Financial Stability Board</b>
<b>IAASB</b>	<b>International Auditing and Assurance Standards Board</b>
<b>IAESB</b>	<b>International Accounting Education Standards Board</b>
<b>IAPC</b>	<b>International Auditing Practices Committee</b>
<b>IAS</b>	<b>International Accounting Standards (the predecessor to IFRS)</b>
<b>IASB</b>	<b>International Accounting Standards Board</b>
<b>IASC</b>	<b>International Accounting Standards Committee</b>
<b>IESBA</b>	<b>International Ethics Standards Board for Accountants</b>
<b>IFAC</b>	<b>International Federation of Accountants</b>
<b>IFRS</b>	<b>International Financial Reporting Standards</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>INTOSAI</b>	<b>International Organization of Supreme Audit Institutions</b>
<b>IOSCO</b>	<b>International Organization of Securities Commissions</b>
<b>IPSASs</b>	<b>International Public Sector Accounting Standards</b>
<b>IPSASB</b>	<b>International Public Sector Accounting Standards Board</b>
<b>MB</b>	<b>Monitoring Board (of the IFRS Foundation)</b>
<b>MG</b>	<b>Monitoring Group (of IFAC)</b>
<b>MOU</b>	<b>Memorandum of Understanding</b>
<b>OECD</b>	<b>Organisation for Economic Co-operation and Development</b>
<b>PIOB</b>	<b>Public Interest Oversight Board</b>
<b>PSC</b>	<b>Public Sector Committee</b>
<b>RPG</b>	<b>Recommended Practice Guideline</b>

## **MESSAGE FROM THE CO-CHAIRS**

The recent financial crisis has underscored the importance of comprehensive, reliable, and timely financial reporting by governments to global economic and financial stability. The crisis has also revealed substantial shortcomings in financial reporting practices in the public sector. Therefore there is an urgent need to improve governments' understanding of their fiscal position and prospects, provide legislators, markets, and citizens with the information they need to make efficient financial decisions, and hold governments accountable for their performance. Establishing and disseminating high quality accounting standards for the public sector are critical to bringing about this step-change in fiscal transparency.

International Public Sector Accounting Standards (IPSASs) have a role to play in improving the quality of government financial reporting. However, despite the considerable and commendable work of the International Public Sector Accounting Standards Board (IPSASB) over the last past 15 years to develop and disseminate a comprehensive suite of standards and guidance materials, the adoption of IPSASs by national governments remains low. Consultation exercises, such as the ones recently undertaken by the Monitoring Group (MG) of the International Federation of Accountants (IFAC)<sup>1</sup> and Eurostat<sup>2</sup>, found that concerns about the governance and oversight of the IPSASB are among the reasons cited by national authorities for not adopting IPSASs. If IPSASs are to play the role which they have the potential to do in improving government accounting practices, it is essential to resolve the questions related to their governance and to bring closure to discussions which have been ongoing for several years.

In this context, and welcomed by the MG, the IPSASB Governance Review Group ("the Review Group") was formed to propose future governance and oversight arrangements for the IPSASB. The Review Group is chaired by representatives from the World Bank, International Monetary Fund (IMF), and Organisation for Economic Co-operation and Development (OECD), and includes representatives from the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Organization of Supreme Audit Institutions (INTOSAI). Eurostat and IFAC are serving as observers to the governance review. Its Terms of Reference can be found in Appendix A.

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<sup>1</sup> <http://www.ipiob.org/news/public-consultation-public-interest-oversight-board-work-program-2102-and-beyond>.

<sup>2</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/public\\_consultations/consultations/ipsas](http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/ipsas).

The Review Group held its first meeting in Paris on May 31, 2013 to agree on the Terms of Reference for this review and scope and content of a public consultation to garner views from stakeholders and the public at large on the governance and oversight of the setting of accounting standards for the public sector.

The Review Group intends to meet again in the spring of 2014 to consider the responses to the consultation with a view of forming a final set of recommendations by the end of 2014.

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## **STRUCTURE OF THE PAPER**

This Consultation Paper, *The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)*, was developed and approved by the Review Group.

The paper focuses on governance and oversight processes in the setting of accounting standards for the *public sector*, whose stakeholders and needs are different from the private sector. It (i) provides some background on the origins, achievements, and funding of the IPSASB; (ii) describes the governance and oversight arrangements of other international standard setting bodies; (iii) discusses the current governance and oversight arrangements for the IPSASB; (iv) makes a series of proposals for strengthening these arrangements; and (v) provides a set of questions for public consultation.

## **I. BACKGROUND OF THE IPSASB**

### **A/ Origins**

The IPSASB traces its origins to 1986 when IFAC, the worldwide organization for the accountancy profession<sup>3</sup>, established the Public Sector Committee (PSC) as one of its standing committees. The PSC had a broad mandate to develop programs for the improvement of public sector financial management and accountability. In its first decade, the PSC strived to establish itself and its output consisted largely of one-off studies on specialized accounting issues in the public sector.

In 1996, the PSC launched the Standards Program and *de facto* changed its role into an international accounting standard setter for the public sector. Following an externally chaired review of the PSC's role, governance, and organization in 2004 (the "Likierman Review"<sup>4</sup>), IFAC "re-launched" the PSC as the IPSASB in 2004 with revised terms of reference to reflect that the mandate of the Board would in the future focus on developing and issuing IPSASs.

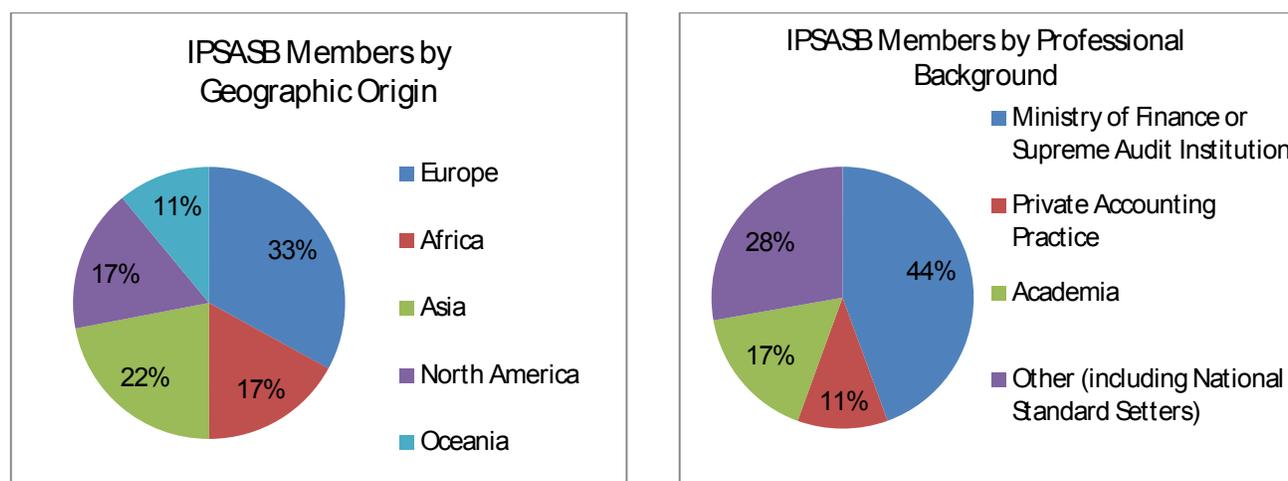
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<sup>3</sup> IFAC's mission is to advance the accounting profession and to promote high quality practices by professional accountants. It includes 173 national accountancy bodies as its constituent members.

<sup>4</sup> Report of the Externally Chaired Review Panel on the Governance, Role, and Organization of the International Federation of Accountants Public Sector Committee, chaired by Sir Andrew Likierman. See Appendix B for additional details.

In the past, there have been criticisms about membership of the IPSASB being too weighted to practitioners from private accounting practices, with limited experience of the public sector. However, the composition of the Board has evolved significantly over the last years. The Board Members and Technical Advisors now include professionals from ministries of finance, government audit institutions, private accounting practices, and public members. Today, the Board comprises 18 volunteer members from around the world with experience and expertise in public sector financial reporting. Representatives of organizations that have a strong interest in public sector financial reporting, such as the IMF, World Bank, OECD, and European Commission, also participate in the Board meetings as observers.

The profile of the IPSASB members by geographic origin and by professional background is currently as follows:



Source: Review Group, based on information available on the IPSASB website at December 2013.

A brief chronology of the IPSASB's history and significant governance reviews is provided in Appendix B.

## **B/ Achievements**

Since 1996, the IPSASB has been developing standards, guidance, and resources for use by public sector entities for general purpose financial reporting.

In the first phase, the IPSASB focused on adapting existing International Accounting Standards (IAS), later International Financial Reporting Standards (IFRS), to the public

sector<sup>5</sup>. By the end of 2001, there were 17 IPSASs, all of them based on related IFRSs. In most cases, these standards were similar to the original IFRS (with some adaptation of terminology and examples) but others required extensive work to adapt them to a public sector context. The IPSASB also developed a single cash-basis standard, largely designed as an interim step for countries transitioning to an accrual basis.

In 2002, the IPSASB initiated the second phase of the Standards Program, which, in addition to continuing to develop IPSASs based on IFRSs, included addressing issues of particular significance to the public sector. Since 2002, twelve IPSASs have been developed, including four public sector specific standards: IPSAS22, *Disclosure of Information About the General Government Sector*; IPSAS23, *Revenues from Non-Exchange Transactions*; IPSAS24, *Presentation of Budget Information in Financial Statements*; and IPSAS32, *Service Concession Arrangements: Grantor*.

More recently, in addition to developing accrual IPSASs, the IPSASB has dedicated considerable time to developing (i) a public sector conceptual framework that will outline the core principles that all individual accounting standards should conform to and which may imply revising some of the existing standards<sup>6</sup>, and (ii) Recommended Practice Guidelines (RPGs) that represent good practices that public sector entities are encouraged to follow (as opposed to *Standards* that entities are to apply if they want to claim compliance with IPSASs). Other recent projects include work on harmonization of IPSASs and standards for Government Finance Statistics.

As at the end of June 2013, the IPSASB has issued 32 standards<sup>7</sup> and 2 RPGs<sup>8</sup>. At the same time, 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.

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<sup>5</sup> IFRS are dynamic in nature with frequent updates and improvements. Therefore, the IPSASB still devotes time to keep the relevant IPSASs up to date in order to avoid/minimize a gap developing between the private and the public standards.

<sup>6</sup> The conceptual framework is targeted for a 2014 completion.

<sup>7</sup> Note that IPSAS15, *Financial Instruments: Disclosure and Presentation* has been superseded by IPSAS28, IPSAS29, and IPSAS30 from January 2013. The IPSASB has also issued a cash-basis standard for countries moving toward full accrual accounting.

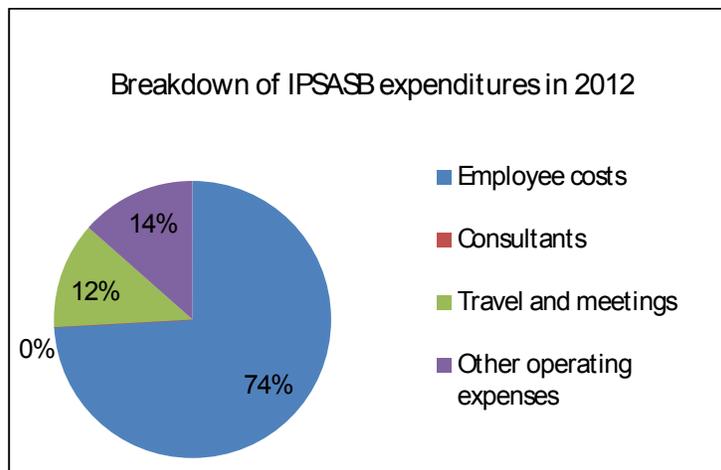
<sup>8</sup> RPG1, *Reporting on the Long-term Sustainability of an Entity's Finances*, and RPG2, *Financial Statement Discussion and Analysis*.

## C/ Funding

More than half of the IPSASB’s funding is provided by IFAC through contributions from its member bodies. External funding accounts for the other half – with the Government of Canada and the Canadian Institute of Chartered Accountants (now CPA Canada) accounting for approximately half that amount. A number of other sources provide the remaining funding through smaller contributions. The external funding has been in general terms for the work of the IPSASB and not ear-marked for any specific activity.

The IPSASB’s total budget in 2012 was US\$ 2.3 million. As shown in the figure below, the bulk of the budget is spent on salaries of technical and support staff, as Board members are volunteers.

The breakdown of the IPSASB expenditures is currently as follows:



Source: The [IPSASB](#).

## II. EXISTING STANDARD SETTING MODELS

In considering the future governance of the IPSASB, a key point of reference is the governance arrangement for other international standard setters. International standard setters operate under two broad models established in the wake of the Asian crisis in the late 1990s, under the auspices of what were then the G7 and the Financial Stability Forum.

## **A/ Standard setting by the official sector**

The first and most common arrangement is for the setting of standards to be done within and by internationally recognized organizations, committees, or other bodies, which either comprise, or are directly overseen by, representatives of national governments, i.e., the official sector.

In the area of *financial sector standards* reliance was placed, for example, on the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions. The legitimacy and authority of these standards derive from the fact that they are developed by agreement between official sector national authorities which are responsible for setting requirements at the national level, and which are subject to accountability and public interest mandates at that same national level. Their relevance is assured by virtue of the fact that those who set the international standards are those who have to impose them at the national level.

In the area of *fiscal transparency, corporate governance, and insolvency and creditor rights*, standards are set by the relevant international treaty-based intergovernmental bodies, which are, respectively, the IMF, OECD, and the World Bank. The legitimacy and authority of these standards derive from that granted to these organizations by the national governments who are their members, and who participate in their governance.

## **B/ Standard setting by a private sector body**

The second arrangement is for the setting of standards to be done by a private sector body, as has been done in the field of accounting and auditing for the corporate and financial sector. This model evolved from the recognition of the technical work done by the professional bodies and acceptance that there was no official sector body that could fully substitute for them. The standard setting by a private sector body can be achieved by either (i) having an existing professional body establish and oversee the standard setting board (as is the case for the IAASB, which operates under the auspices of the IFAC) or (ii) by creating an ad hoc private sector entity to oversee the standard setting body (that is the case for the IASB, which operates under the IFRS Foundation).

For the standards set by private sector bodies to have a sufficient legitimacy and authority compared to those set by the official sector, additional consideration has been given to their governance and oversight with the objective to ensure, to the extent possible, that they are accountable to the public interest and not subject to undue influence.

Figure 1 illustrates the manner in which this model operates and is followed by descriptions of how the model is applied to the setting of, respectively, auditing standards, and accounting standards for the private sector.

**Figure 1. Structure for Oversight of Standard Setting by a Private Sector Body**



*1/ International Auditing and Assurance Standards Board*

In the area of *auditing for the corporate and financial sectors*, the International Auditing and Assurance Standards Board (IAASB) of IFAC sets the relevant standards. As part of the 2003 IFAC governance reforms<sup>9 10</sup>, significant changes were made to enhance the independence of the standard setting and its protection from vested interests. Governance was strengthened by creating (i) a Public Interest Oversight Board (PIOB) that approves the

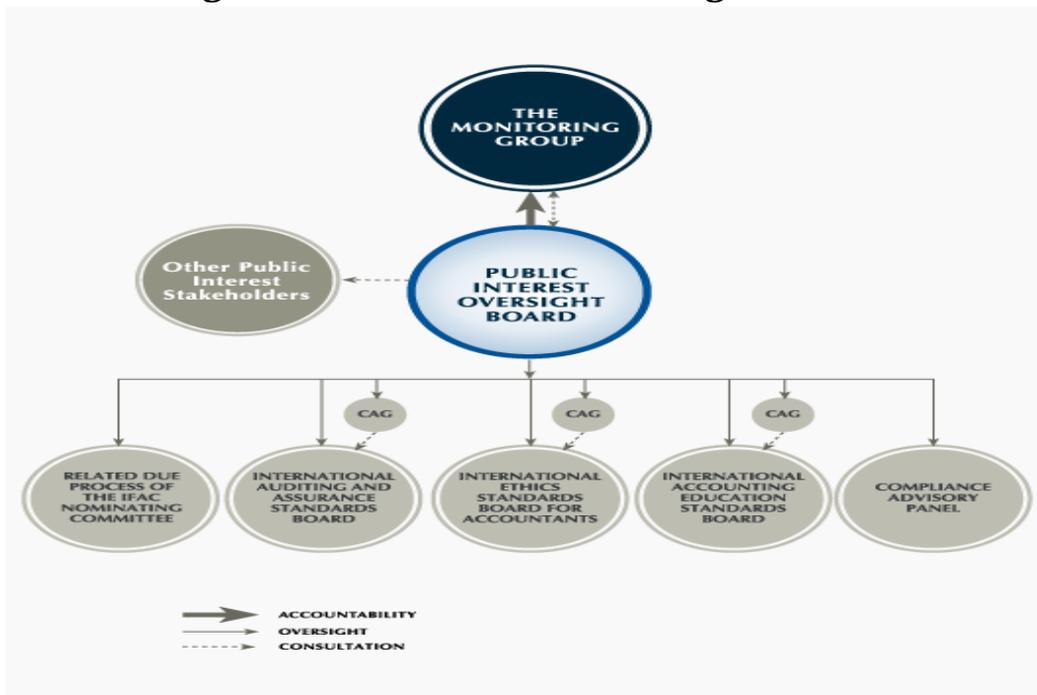
<sup>9</sup> See The [Monitoring Group](http://www.iosco.org) section of IOSCO's website for more information (<http://www.iosco.org>).

<sup>10</sup> The reforms covered 3 standard-setting Boards, including the IAASB, but specifically excluded the IPSASB due to its different focus.

respective Boards' terms of reference and oversees the nomination of Board members and the standard setting process, and (ii) a Monitoring Group (MG) that broadly monitors the implementation of the reforms, appoints the PIOB members, and monitors the PIOB's activities. Consultative Advisory Groups have also been established, mainly for providing inputs to the IAASB on its agenda and project timetable and technical advice on projects.

The diagram below illustrates the governance and oversight structure.

**Figure 2. Governance and Oversight, IAASB**



Source: [PIOB website](#).

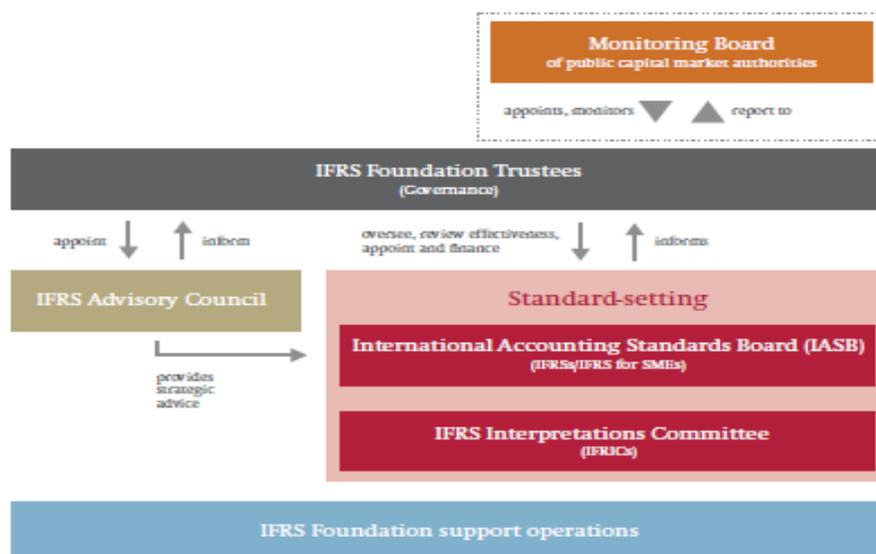
## 2/ International Accounting Standards Board

Similar arrangements are defined in the area of *accounting and financial reporting for the private sector* that is managed by the IFRS Foundation, an independent not-for-profit private sector organization. The International Accounting Standards Board (IASB) operates under the oversight of the IFRS Foundation Trustees, who oversee its standard setting process, while the activities of the Trustees are monitored by the Monitoring Board (MB). The structure and remit of the monitoring and oversight activities are similar to IFAC's MG

and PIOB<sup>11</sup>. The Trustees' responsibilities include but are not limited to appointing members of the IASB, establishing and amending the operating procedures, consultative arrangements, and due process for the IASB, reviewing annually the strategy of the IASB and assessing its effectiveness, ensuring the financing of the IFRS Foundation, and approving annually its budget.<sup>12</sup> The MB was established to provide for the Foundation's public accountability to public authorities and its main responsibilities are to monitor that the Trustees continue to discharge their duties as defined by the IFRS Foundation Constitution and to approve the appointment of Trustees.<sup>13</sup> Some advisory bodies have also been established as channels for the IASB to receive inputs on its work and to consult interested parties from a broad range of backgrounds and geographical regions in a transparent manner.

The governance and oversight arrangements are illustrated below.

**Figure 3. Governance and Oversight, IASB**



Source: IFRS Foundation “[Who we are and what we do.](#)” January 2013.

<sup>11</sup> The IFRS Foundation also relies on the IFRS Interpretations Committee, the IFRS Advisory Council, and other bodies for technical and strategic advice.

<sup>12</sup> Source: <http://www.ifrs.org/The-organisation/Trustees/Trustee-responsibilities/Pages/Trustee-responsibilities.aspx>.

<sup>13</sup> Source: <http://www.ifrs.org/The-organisation/Governance-and-accountability/Pages/Monitoring-Board.aspx>.

### **III. THE OVERSIGHT AND GOVERNANCE OF THE IPSASB**

Despite differences in their composition, scope, and mandate, the aforementioned standard setting models share a number of common and desirable characteristics for the setting of standards. These are:

- *Accountability* – Those making standard setting decisions are accountable to the public interest. This may be achieved through direct involvement of or appropriate oversight by those considered representing the public interest.
- *Independence* – The governance arrangements and standard setting process are designed to avoid any undue influence from any one party.
- *Competence* – Those making standard setting decisions have the necessary skills and knowledge of the sector in which they operate.
- *Credibility*, which in turn comprises (i) *Participation* – Relevant stakeholders must be convinced they can play an appropriate role in the standard setting process, so that they will show the interest and willingness to get involved; (ii) *Capacity* – The necessary financial and human resources are available to carry out the work; and (iii) *Transparency* – The process for standard setting decisions is clear and open to public scrutiny.

The outcome of the standard-setting model is to establish and maintain “*high-quality standards*”. High quality standards, in the accounting and financial reporting areas, are generally described as standards resulting in comparability and transparency, and that provide for full and fair disclosure in financial accounts. In other words, standards shall allow users of the financial information meaningfully to analyze the financial situation and performance between entities and across time periods for the same entity.

This section discusses the current governance arrangements of the IPSASB in light of these characteristics. The next section proposes three options for strengthening these governance arrangements and aligning them more closely with the characteristics highlighted above.

## **A/ Absence of public interest oversight**

The IPSASB is unique amongst international standard setters in that, while it has been operating under the auspices of a professional body, IFAC, unlike the other standard setting boards its activities are not subject to a formal public interest oversight mechanism.

The 2004 Likierman Review had recommended that the IPSASB be brought within the scope of the PIOB. But the IPSASB was excluded from the PIOB's oversight when the PIOB was established in 2005 to oversee due process in the setting of standards by, and nominations of, the IAASB, the International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA). In 2010, the MG, in its review of the 2003 IFAC reforms, also noted the lack of oversight for the IPSASB but refrained from revisiting the remit of the PIOB. The IPSASB and IFAC subsequently consulted, in 2011 and 2012, with stakeholders to seek their views on possible arrangements for independent oversight of the IPSASB. Of the stakeholders consulted, virtually all agreed with the need for such an oversight. Whilst a number of options were proposed, there was no clear conclusion at the time and, following its own public consultation on the governance of the MG, PIOB, and the standard setting boards operating under the auspices of IFAC, the MG organized a roundtable to gain insight about the IPSASB's stakeholders and their governance needs (See section IV for the outcome of the roundtable).

## **B/ Current governance arrangements and recent reforms**

While the IPSASB has operated (and continues to operate) without a formal public interest oversight mechanism, the last few years have seen improvements in the governance of the standard setting process. These include reforms in (i) the process for nominating board members; (ii) development of the work program; and (iii) due process for the development of standards.

### *1/ Nomination process*

The process for nominating Board members has been managed entirely by IFAC since the creation of the PSC in 1986. Unlike other international standard setters such as the IASB, the nominations to the IPSASB were not initially subjected to a formal process, nor overseen by an external body.

Since 2004, the members of the IPSASB, including the Chair and Deputy Chair, are appointed by the IFAC Board on the recommendation of the IFAC Nominating Committee, which is constituted entirely by members with a private sector orientation.<sup>14</sup>

Beginning with nominations for 2014, and consistent with other independent standard setting bodies, nominations for the IPSASB have been allowed from all stakeholders, including international organizations, governmental institutions, and the general public. Whilst this is seen as a positive step, decisions regarding the composition of the IPSASB do not have approval by a public interest oversight body and remain under the sole authority of the IFAC Board through its Nominating Committee.

### *2/ Work program*

Until recently, the IPSASB (and its predecessor the PSC) decided its own work program without formal public consultation, in contrast with practices applied by other international standard setters such as the IASB. However, in 2013, the IPSASB for the first time submitted its work program to public consultation. While this greater openness regarding work priorities is welcome, in the absence of an oversight body, the mechanism for arbitrating between competing priorities remains unclear.

### *3/Due process*

The IPSASB follows a structured and transparent due process in the development of all IPSASs. In general, the IPSASB will issue a consultation paper, or preliminary discussion document, that explores the subject in detail and provides the basis for further discussion, development, and policy formulation. An exposure draft of all proposed IPSASs is then developed. The IPSASB generally allows 120 days for comments on its consultation papers and exposure drafts. This process provides the opportunity for all those interested in financial reporting in the public sector to make their views known to the IPSASB and that their views are considered in the development of standards. This due process is consistent with the best practices of other international standard setters. However, in the absence of an oversight body there is no control over or verification of its implementation. The credibility of this due process has been hampered also by the perceived limited involvement of public sector professionals (e.g., ministries of finance, supreme audit institutions not directly represented in the IPSASB) in the public consultations.

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<sup>14</sup> This is identical to the nominations for the standard-setting boards of IFAC subject to public interest oversight by the PIOB, except that for the Public Interest Activity Committees the nominations approved by the IFAC Board must be submitted to the PIOB for final approval.

#### **IV. PROPOSAL FOR STRENGTHENING THE IPSASB'S GOVERNANCE**

In light of the preceding discussion, the Review Group believes there is a need to strengthen the governance of the IPSASB. This section sets out the Review Group's proposals for monitoring and oversight, including the remit and membership of monitoring and oversight bodies, as well as options for establishing these bodies.

It should be noted that whilst reviewing the existing models for international standard setting activities discussed in section II of this paper, the Review Group considered whether a standard setting board comprising official bodies (namely, national standard setters for the public sector) could set accounting standards for the public sector, in lieu of the IPSASB. However, the Review Group noted that national standard setters for the public sector are often inherently conflicted by the fact that they are working under the auspices of ministries of finance that are subject to these standards.<sup>15</sup> Furthermore, the Review Group noted that there had been appropriate recognition of the quality of the work which had been done to date by the IPSASB.<sup>16</sup> As care should be taken to minimize disruption to the functioning of public sector accounting standard setting activities, the Review Group concluded that enhancements to the current IPSASB governance arrangements, along the lines of other non-official standard setters, represented a more appropriate and proportional response.

As indicated in section III, previously, consideration had been given to expanding the mandate of the MG and PIOB of IFAC to encompass the IPSASB. However, at the recent roundtable on public sector accounting standards convened by the MG, it became clear that oversight arrangements for public sector standard setting would require significant changes to the composition and remit of both the MG and PIOB, their mandate being focused on audit, ethical, and educational standards for accountants. The proposal to take on oversight of the IPSASB was therefore declined by the MG in March 2013, citing its concern that such changes could risk the realization of the objectives for which the MG and PIOB were originally created.<sup>17</sup> This option is therefore also excluded from this paper.

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<sup>15</sup> Even though some countries have established independent accounting standard setters for the public sector, operating under the supervision of national monitoring and oversight bodies.

<sup>16</sup> For example, refer to the IMF's Board Paper "Fiscal Transparency, Accountability, and Risk" or Eurostat's "Assessment of the suitability of the International Public Sector Accounting Standards for the Member States".

<sup>17</sup> See [Press Release of the Monitoring Group](#) (28 March 2013) and the [Roundtable Summary](#), Monitoring Group Summary of 27 February 2013 Roundtable on Public Sector Accounting Standard Setting.

## **A/ Remit of the monitoring and oversight bodies**

Taking into consideration the existing arrangements for standard setting in the auditing and private sector accounting and financial reporting areas (see section II above, figure 1), the remit of the IPSASB's monitoring and oversight bodies should aim to (i) ensure that the public interest is served by the standard setting activities (*monitoring function*), (ii) establish the standard setting strategy and governance arrangements, and (iii) oversee their implementation (*oversight function*).

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 *strategy, work program, and budget* of the different bodies.

Additionally, the oversight bodies will have to define the role and functions of the various stakeholders of the public sector standard setting process, and, in particular, how governments shall be involved in this process while at the same time ensuring they cannot exert any undue influence.

The oversight bodies may also be responsible for establishing a Consultative Advisory Group, whose function would be to provide technical advice to the IPSASB, and seek feedback from the users of the standards.

## **B/ Composition of the monitoring and oversight bodies**

### *1/ Monitoring body*

For the accounting standard setting activities of the private sector, securities regulators and regional and international public sector institutions<sup>18</sup> represent the public interest, i.e., the interests of investors who are the primary users of the financial information.

For the public sector, identifying those official sector bodies that shall represent the public interest is more complex. Indeed, users of the financial information are numerous, with diverse interests. The Review Group believes that the best means to ensure that the public interest is adequately represented is to balance these various interests in a monitoring body that includes representatives of:

- 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 Review Group noted that these organizations and institutions may choose to be involved in the monitoring body as observers or by designating members acting ex officio.

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<sup>18</sup>The members of the Monitoring Board are, at this moment, the Emerging Markets and Technical Committees of the International Organization of Securities Commissions (IOSCO), the European Commission, the Financial Services Agency of Japan (JFSA), and the US Securities and Exchange Commission (SEC). The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer. Source: <http://www.ifrs.org/The-organisation/Governance-and-accountability/Pages/Monitoring-Board.aspx>.

## *2/ Oversight body*

The oversight body should comprise individuals who have both an appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public sector. They are likely to include individuals selected in their capacities as accounting standard setters, preparers of financial reporting, public practice professionals, and academics.

### **C/ Options for establishing the IPSASB's monitoring and oversight bodies**

The Review Group identified the following three options for improving the public interest oversight of the IPSASB, all of which the Group believes to be consistent with the desirable characteristics set out in section III. In weighing the advantages and disadvantages of the three governance reform options, the Review Group also took into account the following practical considerations:

- 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.

## *1/ Extending the scope of the IFRS Foundation's MB and Trustees activities*

A first option for exercising public interest oversight of the IPSASB would be to invite the IFRS Foundation's MB and Trustees to extend the scope of their activities to encompass the IPSASB. The IASB and IFAC have recently signed a Memorandum of Understanding<sup>19</sup> that noted the common and mutual interests of the IASB and IPSASB, and set up some communication and co-operating processes. The paper also identified "*a single governance body, or a single standard setting requirements for both the public and private sectors*" as potential options for enhancing the standard setters' contribution to serving the public interest.

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<sup>19</sup> See the document on the IFRS Foundation website: <http://www.ifrs.org/Use-around-the-world/Pages/IASB-IFAC-MOU.aspx>.

Bringing the IPSASB under the governance and oversight of the IFRS Foundation's MB and Trustees would have the following practical advantages. First, 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.<sup>20</sup> Second, the IFRS Foundation's MB and Trustees have well established competence, resources, and procedures for the public interest oversight of accounting and financial reporting standard setting activities for the private sector, most of which will be readily applicable to the setting of public sector accounting standards. Third, costs of the IPSASB oversight would only be incremental to those already being incurred.

Bringing the IPSASB under the umbrella of the IFRS Foundation's MB and Trustees would also present several difficult practical challenges. First, the composition of the MB and Trustees would need to be expanded to include representatives of a wider public interest and individuals with competence in public sector accounting issues. Second, the additional costs associated with activities of the public sector subcommittee of the MB and public sector Trustees would need to be met for which no immediate source of funding is available. Third, these changes to the remit and composition of the Board and Trustees would likely have to await a review of the IFRS Foundation's constitution which is not expected for another two years. In its most recent Trustee's strategy review in February 2012, the IFRS Foundation considered the possibility of expanding its remit to include the IPSASB, 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.

*2/ Establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC*

A second option for formalizing the public interest oversight of the IPSASB would be to establish separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC. This would entail creating a public sector version of the PIOB. Such bodies would have broadly the same competence as the IFRS Foundation's MB and Trustees and operate by consensus, with the membership and remit discussed in sections A and B. Depending on the available resources, the monitoring and oversight functions could, initially, be merged and carried out by a single monitoring and oversight body.

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<sup>20</sup> This has been called for in a Memorandum of Understanding between IFAC and IASB, and by a number of respondents to recent consultations of the IPSASB (such as the consultations on the conceptual framework).

Establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC, would have the following advantages. First, the members of such a body, or bodies, could be selected fully on the basis of their background and expertise in public sector accounting issues. Second, such a body, or bodies, could be established reasonably quickly without requiring constitutional and organizational changes to the IFRS Foundation machinery. Third, it is expected that the current funding of the activities of the IPSASB, half of which are met by IFAC members, could also be maintained.

Setting up a freestanding monitoring and oversight body would also present its own challenges. First, a separate board would not benefit from the accumulated experience and expertise in public interest oversight established by the IFRS Foundation's MB and Trustees. Second, the overall cost of oversight would likely be increased, as it would not benefit from the economies of scale and scope that would come from having single bodies overseeing both standard setters. Third, 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.

*3/ Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies*

A third option would be to reestablish the IPSASB outside of IFAC with its own monitoring and oversight arrangements. This arrangement would be mostly similar to Option 2 with the exception that the IPSASB's formal connection with IFAC would be broken.

The principal practical advantage of this option over Options 1 and 2 would be the fact that any perceived conflict of interest associated with IFAC's financial support to the IPSASB would be removed.

This option also presents a number of challenges. First, establishing a new structure will likely be a more time consuming option than Options 1 and 2, as there is no other international organization body or organization which has offered to host the IPSASB. Second, a free-standing IPSASB would likely require additional staffing and financial resources beyond what would be required under Options 1 and 2. Third, if the IPSASB were to lose the financial support provided by IFAC members, there are no evident alternative means of financing the bulk of its activities. Furthermore, most potential alternative sources of funding that might be considered (national governments or international organizations) are themselves currently or potentially subject to the IPSASB standards and therefore also have a conflict of interest.

## 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:

- 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?<sup>21</sup> If so, please describe.

**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?

**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?

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<sup>21</sup> 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 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.

Responses should be submitted to [IPSASB@oecd.org](mailto:IPSASB@oecd.org). The deadline for submissions is April 30, 2014.

## **APPENDIX A**

### **IPSASB Governance Review Group Terms of Reference**

1. The International Public Sector Accounting Standards Board (IPSASB) is the standard setting board that develops International Public Sector Accounting Standards (IPSASs), guidance, and resources for use by public sector entities for general purpose financial reporting. It operates under the auspices of the International Federation of Accountants (IFAC), the worldwide organization for the accountancy profession. IPSASB consists of 18 volunteer members from around the world with experience and expertise in public sector financial reporting. Members include practitioners from ministries of finance, government, audit institutions, public practice, and public members (who need not be members of the accounting profession).
2. IPSASs are the only international accounting standards designed for the public sector. Perceived shortcomings in the governance and oversight of the processes for setting IPSASs have nonetheless acted as an impediment to their adoption and implementation. It had been suggested to address these shortcomings by expanding the mandate of the Monitoring Group (MG) and Public Interest Oversight Board (PIOB) to cover the IPSASB, but this proposal was declined by the MG, given the specific audit-focused mandate and composition of both the MG and the PIOB. However, given the importance of strengthening IPSASB governance and oversight, the MG did welcome the creation of a new Review Group, representing international official sector organizations having a direct interest in public sector financial reporting, to come forward with recommendations in this regard.
3. The Review Group is chaired by representatives of the International Monetary Fund (IMF), the World Bank, and the Organisation for Economic Co-operation and Development (OECD), and includes the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO), and the International Organization of Supreme Audit Institutions (INTOSAI) as members. Depending on their internal organization, Members will act as dissemination points rather than necessarily reflecting their respective body views. The Review Group operates by consensus.

4. The task of the Review Group is to assess the current governance and oversight arrangements for the setting of IPSASs and other pronouncements, and to make recommendations to strengthen these structures and processes so as to enhance the perceived relevance, quality, and legitimacy of those standards and pronouncements in order to promote effective public sector financial reporting. Recommendations may cover the short, medium, and long term, and may be addressed to any relevant organizations.
5. In carrying out its task, the Review Group will consult widely with interested stakeholders, seek their input to its analysis and decision-making, and provide feedback on how inputs received have been dealt with. All written submissions will be made public, unless requested otherwise. Background information on the review, the Review Group and the progress of the review exercise will be made available on-line.
6. Observers appointed by the Review Group may attend its meetings, and may participate in discussions. Observers include representatives of the European Commission/Eurostat, the IFAC and the IPSASB.
7. It is expected that a consultation document seeking input from interested stakeholders will be issued in summer 2013, with a final report and recommendations being issued and made public in spring 2014.
8. The Review Group will work with those to whom its recommendations are addressed to facilitate their effective implementation. No later than 3 years after making its recommendations, it will undertake a further review to assess the extent to which they have been implemented and may make additional recommendations at that time. The results and recommendations of that further review will be made public.

**APPENDIX B****History of the IPSASB – Chronology of Governance Events**

1977	International Federation of Accountants (IFAC) founded. IFAC is the global organization for the accountancy profession.
1986	IFAC establishes Public Sector Committee (PSC) as one of its standing committees, with a broad mandate to develop programs for the improvement of public sector financial management and accountability.
1996	PSC launches the Standards Project in response to concerns about the variability in the quality of financial reporting by many governments and their agencies. The PSC begins development of International Public Sector Accounting Standards (IPSAS). The first phase (1996 – 2001) focuses on adapting existing International Accounting Standards (IAS) promulgated by the International Accounting Standards Committee (IASC).
2001	International Financial Reporting Standards (IFRS) Foundation established as an independent, not-for-profit private sector organization working in the public interest.  (April) International Accounting Standards Board (IASB) succeeds the IASC and becomes the standard setting body of the IFRS Foundation. IASB begins to issue IFRS, the new name for IAS, for application by business enterprises.
2002	PSC begins the next phase of its Standards Project, which, in addition to continuing to develop IPSASs based on IFRSs, included addressing issues of particular significance to the public sector.
2003	(October) IFAC commissions an externally chaired review of the PSC. The Panel, chaired by Sir Andrew Likierman, seeks the views of the PSC's main constituents through a questionnaire, and addresses the PSC's role, governance and organization, and its approach to translation of pronouncements, exposure drafts and invitations to comment. The review also considers the PSC's current funding, budgetary arrangements, and location of its staff.
2003	(November) IFAC Council approves the IFAC Reforms, designed to: strengthen standard setting processes; achieve convergence to high-quality international standards in auditing, professional ethics, and accountancy education; enhance performance by the accountancy profession; build investor confidence in financial reporting, in the work of auditors, and in financial securities markets worldwide; and ensure that the international

	<p>accountancy profession is responsive to the public interest.</p> <p>PSC not included in the IFAC Reforms. Omission of the PSC from the scope of the proposed Public Interest Oversight Board (PIOB) is due to Monitoring Group's (MG) focus on IFAC's auditing and assurance activities.</p>
2004	<p>(June) <u>Report of the Externally Chaired Review Panel on the Governance, Role and Organisation of the International Federation of Accountants Public Sector Committee</u> (also known as the "Likierman Review") issued.</p> <p>The Panel concludes that the case for an independent standard setter is proven and recommends the PSC be re-named The International Public Sector Accounting Standards Board. The PSC's long-term objective should be for private sector and public sector financial reporting standards to converge where appropriate, whilst recognizing the need for separate standards or adaptations of private sector standards, on issues specific to or of significance to the public sector.</p> <p>The Panel also recommends that the "PSC should consider as an immediate priority a modification to the current governance arrangements." It recommends that the PSC be brought within the scope of the PIOB and that the composition of the PIOB be modified to include members with expertise in public sector financial reporting. A second model, involving the creation of a separate Board of Trustees, was also considered by the Panel but rejected.</p> <p>Further, the Panel endorses the PSC's governance mechanisms and due process as sound and conducive to transparency and effective working.</p>
2004	<p>(November) IFAC approves a name change and new terms of reference for the PSC and the International Public Sector Accounting Standards Board (IPSASB) is born.</p>
2005	<p>(February) PIOB established to oversee the public interest activities of IFAC's independent standard setting boards: International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), and International Ethics Standards Board for Accountants (IESBA).</p>
2005-2009	<p>Several discussions take place between the IPSASB and IFAC, and at least one call with MG members to discuss oversight options. There is no progress.</p>
2010	<p>(November) Monitoring Group completes the first five-year review of the 2003 IFAC reforms. Lack of oversight for the IPSASB is noted, but MG does not take on to its agenda revisiting the scope provision of the Reforms.</p>

2011	(March) IFAC issues a Consultation Paper (CP), <u>Proposals for Oversight of the International Public Sector Accounting Standards Board (IPSASB)</u> . Two models are proposed: (1) expansion of the PIOB composition and mandate to provide oversight for the IPSASB; and (2) oversight by a public sector exclusive oversight body, with composition initially smaller because of the relatively smaller scope of activities. In addition, the CP proposes establishment of a Consultative Advisory Group, comparable to other standard setting bodies.
2011	(September) Results of consultation reported to IFAC Board, indicating strong support for establishing oversight of the IPSASB, and marginally stronger support for oversight by the PIOB rather than a public sector exclusive body. Some respondents raise the question of the IPSASB joining with IASB, as a long-term vision for standard setting. Some were in favor of an option of establishing a new public oversight body outside IFAC.
2011	(November) IFAC and IASB sign Memorandum of Understanding (MOU) to enhance cooperation in developing private and public sector accounting standards. The IASB and IFAC agree "... to discuss the future institutional and governance arrangements for standard setting for the public sector," and the MOU notes that "there are a number of options for enhancing the public interest, including the IASB and the IPSASB operating under a single governing body, or a single standard setter setting requirements for both the public and private sectors. It is important to identify which option best serves the public interest." The MOU is to be reviewed by December 2014.
2012	(March) Monitoring Group launches <u>Public consultation on the governance (with special focus on organizational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC</u> . The consultation includes questions related to the IPSASB and whether it should be subject to PIOB oversight.
2012	(September) Monitoring Group considers views received on the IPSASB oversight as part of the March 2012 consultation and organizes a roundtable for February 2013 to gain insight about the IPSASB's stakeholders and their governance needs, with the objective of being better informed in order to responsibly and decisively assess the merits of any role for the MG or PIOB in the IPSASB governance.
2013	(February) G20 Finance Ministers and Central Bank Governors issue Communiqué which includes tasking the IMF and World Bank with looking at transparency and comparability of public sector reporting. The IPSASB Governance Review Group is established.

2013	<p>(February) Monitoring Group holds a roundtable on public sector accounting standard setting, with particular focus on the IPSASB. MG concludes that its composition, as well as that of the PIOB, is not the best suited for the IPSASB governance, and that any modifications to MG and PIOB composition could risk the realization of the objectives for which the MG and PIOB were created.</p>
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# AGENDA PAPER

IFRS Advisory Council Meeting

LONDON 24–25 February 2014

**Agenda ref 3**

TOPIC International Public Sector Accounting Standards Board  
(IPSASB) Governance Review

PRESENTERS Yael Almog/David Loweth

CONTACTS [yalmog@ifrs.org](mailto:yalmog@ifrs.org) and [dloweth@ifrs.org](mailto:dloweth@ifrs.org)

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

## Introduction

1. The purpose of this paper is to seek the views of the Advisory Council on the proposals set out in the public consultation document issued on 23 January 2014 by the Organisation for Economic Co-operation and Development (OECD) on a review of governance of the International Public Sector Accounting Standards Board (IPSASB), which is being undertaken by an IPSASB Governance Review Group. The Review Group's consultation document is attached at Agenda Paper 3A. Jon Blondal, Head of the OECD's Budgeting and Public Expenditure Division, will attend and participate in the session.
2. The consultation document has implications for the IFRS Foundation, because one of the options put forward for governance of the IPSASB (Option 1, as noted in paragraph 13 below) is that the IFRS Foundation and the Monitoring Board should extend the scope of their activities to encompass the IPSASB. The first part of this paper sets out the background to IPSASB and its governance, together with a summary of the Foundation's previous consideration of the governance and oversight of public sector accounting standard-setting. The particular issues on which we would welcome input from Council members in relation to this option are set out in paragraph 21 onwards of this paper. In addition, the views of Advisory Council members on more general issues relating to the consultation document would also be welcome (paragraph 36 onwards).
3. The closing date for comments on the consultation document is 30 April. The staff plan is to bring a draft of the Foundation's response for discussion and approval by the Trustees at their April 2014 meeting.

## Background

### **IPSASB: general**

4. As explained in the consultation document (Section I), the IPSASB's origins go back to 1986, when the International Federation of Accountants (IFAC), the worldwide organisation for the accountancy profession, established a Public Sector Committee (PSC), with a broad mandate to develop programmes for the improvement of public sector financial management and accountability. In 1996, the PSC launched a *Standards Program* and changed its role into that of an international accounting standard-setter for the public sector.
5. Following an externally chaired review of the PSC's governance, role and organisation (the 'Likierman review'<sup>1</sup>), the PSC was 'relaunched' as the IPSASB in 2004, with revised terms of reference to reflect that the mandate of IPSASB would in future focus on developing and issuing International Public Sector Accounting Standards (IPSASs). At present, IPSASB comprises 18 volunteer members from around the world with representatives from Ministries of Finance, government audit institutions, private accounting practices and public members. Representatives of organisations that have a strong interest in public sector financial reporting, such as the OECD, the International Monetary Fund (IMF), the World Bank and the European Commission, also participate in IPSASB meetings as observers.
6. Since the original launch of the *Standards Program*, the IPSASB has issued 32 IPSASs, the majority of which are converged with International Financial Reporting Standards (IFRS) by adapting them to the public sector context, in line with guidelines developed by IPSASB<sup>2</sup>. IPSASB has also developed a number of public sector-specific standards<sup>3</sup>. However, as the consultation document notes, the adoption of IPSASs by national governments remains low, with perceived shortcomings in governance and oversight having acted as an impediment to their adoption and implementation.

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<sup>1</sup> *Report of the Externally Chaired Review on the Governance, Role and Organisation of the International Federation of Accountants Public Sector Committee* (June 2004), chaired by Sir Andrew Likierman, the then Head of the UK Government Accountancy Service.

<sup>2</sup> IPSASB (October 2008) *Process for Reviewing and Modifying IASB Documents*. Available at: [http://www.ifac.org/sites/default/files/downloads/IPSASB\\_Process\\_Final\\_version\\_Oct\\_08.pdf](http://www.ifac.org/sites/default/files/downloads/IPSASB_Process_Final_version_Oct_08.pdf).

<sup>3</sup> IPSAS 21 *Impairment of Non-cash-generating Assets*; IPSAS 22, *Disclosure of Information About the General Government Sector*; IPSAS 23, *Revenues from Non-Exchange Transactions*; IPSAS 24, *Presentation of Budget Information in Financial Statements*; and IPSAS 32, *Service Concession Arrangements: Grantor*.

7. Those concerns have featured in the consideration made by the European Commission (EC) as to the suitability of IPSASs for use in the European Union (EU) (an extract from the EC's March 2013 report is at Appendix A). An EC staff report at that time noted that: "Many stakeholders perceive these interests as inadequate to safeguard the public interest and unresponsive to the independence of the standard-setting process"<sup>4</sup>.

### **IPSASB: governance**

8. The governance of IPSASB (and before it the PSC) has been an issue for some years. The Likierman review in 2004, while concluding that the long-term objective should be for public sector standards to converge with those of the private sector where appropriate, concluded that, in the short term, the IFAC Board and the PSC should "consider as an immediate priority a modification to the current governance arrangements". The review Panel recommended that the PSC should be brought within the scope of the Public Interest Oversight Board (PIOB)<sup>5</sup>. However, the IPSASB was excluded from the scope of the PIOB's oversight when the PIOB was established in 2005 (the focus of the establishment of the PIOB under the IFAC reform proposals in 2003 was on standard-setting activities related to the audits of listed companies).
9. In the absence of public interest oversight, IFAC and IPSASB have introduced improvements to its governance, including (i) the process for nominating IPSASB members; (ii) undertaking a public consultation on its forward work programme; and (iii) following a structured and transparent due process in the development of IPSASs (see Section III of the consultation document).
10. That said, the issue of IPSASB governance has resurfaced from time to time in subsequent years, as highlighted in Appendix B of the consultation document. In February 2013, the Monitoring Group (MG)<sup>6</sup>, which monitors the activities of the PIOB, held a round table on the governance of public sector accounting standard-setting, with a particular focus on IPSASB. The MG's conclusions following that round table<sup>7</sup> were that its composition, as well as that of the PIOB, was not best suited for IPSASB governance. As the consultation document notes, taking on oversight arrangements for IPSASB would require significant changes to the composition and remit of both the MG and the PIOB,

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<sup>4</sup> Commission Staff Working Document accompanying the document *Report from the Commission to the Council and the European Parliament: Towards implementing harmonised public sector accounting standards in Member States*.

<sup>5</sup> The PIOB was established in February 2005 to ensure that international auditing and assurance, ethics, and education standards for the accountancy profession, as developed by the relevant IFAC standard-setting bodies, are set in a transparent manner that reflects the public interest.

<sup>6</sup> The Monitoring Group is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. Its membership comprises the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank.

<sup>7</sup> Available at: [http://www.iosco.org/monitoring\\_group/pdf/Summary-of-Roundtable-on-IPSASB-Governance.pdf?v=1](http://www.iosco.org/monitoring_group/pdf/Summary-of-Roundtable-on-IPSASB-Governance.pdf?v=1).

which—in the MG’s view—could risk the realisation of their original objective of improving audit-related standard-setting.

### **The IPSASB Governance Review Group**

11. The IPSASB Governance Review Group was established in February 2013. The Group is chaired jointly by representatives of the IMF, the OECD and the World Bank, with the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO) and the International Organisation of Supreme Audit Institutions (INTOSAI) as members. Eurostat and IFAC are observers to the Review Group.
12. The consultation document outlines the Review Group’s belief that there is a need to strengthen the governance of the IPSASB and sets out (in Section IV) its proposals for monitoring and oversight, including the remit and membership of the monitoring and oversight bodies, and options for establishing those bodies.
13. The consultation document sets out three options:
  - (1) extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB;
  - (2) establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC; and
  - (3) re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies.
14. Because the MG has declined to take on the oversight of IPSASB, as referred to in paragraph 10 above, the Review Group has excluded such an option from the consultation document. The Review Group also considered, but dismissed, an option as to whether a standard-setting board comprising official bodies (namely, national standard-setters for the public sector), instead of IPSASB, on the grounds that national standard-setters for the public sector are often inherently conflicted by the fact that they are working under the auspices of Ministries of Finance that are subject to such standards.
15. A gap in the paper, as we see it from an initial reading, is that there is no specific mention of the potential role in monitoring and oversight of the relevant international treaty-based organisations themselves, ie the IMF, the OECD and the World Bank (with only a general reference to ‘international institutions’ being made in the proposed composition of the monitoring body).

## Developments in the EU

16. It is interesting to note that the consultation document makes no mention of relevant developments in the EU. Following the EU's consideration of the suitability of IPSASs for use in the EU referred to in paragraph 7 above, the EC (Eurostat) is proposing that the EU should instead move towards the development of European Public Sector Accounting Standards (EPSAS). IPSASs would represent a starting reference for the development of EPSAS. In November 2013, the EC issued a public consultation on possible future governance principles and structures for EPSAS<sup>8</sup>, with a closing date for comments of 17 February. A summary of the proposed EPSAS governance framework is set out in Appendix B, placing the emphasis for both monitoring and oversight with the EU's official sector bodies. The EC document emphasises the need for co-ordination with IPSASB, "so that EPSAS and IPSAS do not drift unnecessarily from each other", but the proposals—if implemented—would have an impact on the potential take-up of IPSASs, not only in the EU, but elsewhere (if other regions take a similar approach).

## The Foundation's previous consideration of governance and oversight of public sector standard-setting

17. The issue of whether the Foundation's objectives should include developing accounting standards for public sector and not-for-profit entities has been considered in previous reviews by the Trustees of the structure and effectiveness of the organisation:

- (1) The report of the review of the then IASC Foundation *Constitution* undertaken between 2003 and 2005 noted that: "While the Constitution would not prohibit the preparation of standards for not-for-profit and public sector entities, the Trustees believe that, because of other priorities and resource constraints, focusing on the public sector and not-for-profit entities is impractical at present. The Trustees plan to revisit the question of not-for-profit and public sector accounting in a few years' time"<sup>9</sup>.
- (2) In the 2008-2010 review of the *Constitution*, the Trustees sought views on whether the IASB should extend its remit beyond its focus on financial reporting by private sector companies. In report the outcome of that review, the Trustees noted that the majority of respondents supported the organisation's continuing emphasis on providing standards for the world's capital markets, with a "small

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<sup>8</sup> Document accompanying the public consultation "Towards implementing European Public Sector Accounting Standards (EPSAS) for EU Member States – Public consultation on future EPSAS governance principles and structures", accessible at: [http://epp.eurostat.ec.europa.eu/portal/page/portal/public\\_consultations/consultations/epsas](http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/epsas).

<sup>9</sup> IASC Foundation (July 2005) *Changes in the IASCF Constitution: Report of the IASC Foundation Trustees*, paragraph C8.

minority” saying that the Foundation’s remit should be broadened “if not for the immediate term, for the long term”<sup>10</sup>.

- (3) The scope of the IASB’s work was a feature of the Trustees’ *Strategy Review 2011*. The majority of respondents to the consultation undertaken by the Trustees as part of the review supported the view that the primary focus should remain on standards for private sector entities. In the report of that review, published in February 2012, the 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 (ie publicly traded entities, other public interest entities, SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date”<sup>11</sup>. In reaching that conclusion, the Trustees took into consideration the unsettled status of IFRS global adoption and the Foundation’s limited resources. The report suggested that the next ‘Constitution Review’ would provide a timely opportunity to consider any expansion in scope (this is acknowledged in the Review Group’s consultation document).

18. In the light of the above, the Foundation’s current intention is to look again at the scope of our activities as part of the next review of the structure and effectiveness of the organisation, which is scheduled to start in 2015.

### **Current relationship with IPSASB**

19. The IASB and IFAC have a Memorandum of Understanding (MoU), signed in November 2011<sup>12</sup>, that sets out the relationship between the two bodies, in particular between the IASB and IPSASB, including:

- (a) regular liaison meetings between the two boards;
- (b) the IASB having observer status at IPSASB meetings; and
- (c) the input provided by IASB staff to specific IPSASB technical projects.

20. The MoU includes a provision (in paragraph 17) that: “The IASB and IFAC also agree to discuss the future institutional and governance arrangements for standard setting for the

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<sup>10</sup> IASC Foundation (May 2010) *Report of the IASC Foundation Trustees on Part 2 of their Constitution Review: Changes for Enhanced Public Accountability and Stakeholder Engagement*, paragraph 29.

<sup>11</sup> IFRS Foundation (February 2012) *Report of the Trustees’ Strategy 2011- IFRSs as the Global Standards: Setting a Strategy for the Foundation’s Second Decade*, paragraph A4.

<sup>12</sup> The MoU can be accessed at: <http://www.ifrs.org/Use-around-the-world/Pages/IASB-IFAC-MOU.aspx>.

public sector. There are a number of potential options for enhancing the public interest, including the IASB and the IPSASB operating under a single governing body, or a single standard setter setting requirements for both the public and private sectors. It is important to identify which option best serves the public interest”.

### **Implications for the IFRS Foundation: seeking the Council’s views on Option 1**

21. Option (1) outlined in paragraph 13 above (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. As noted in the Introduction to this paper, the staff will be preparing a paper on the issues and a draft of the Foundation’s response for discussion and approval by the Trustees at their April 2014 meeting. We have yet to discuss the consultation document with the Monitoring Board. At this stage, we are seeking 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?***

22. 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.
23. In the staff’s view, the situation has not changed since the conclusion of the Trustees’ *Strategy Review* in such a way 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 Council has been kept updated on the challenges and problems in achieving it.
24. 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<sup>13</sup>. Here again, the issues regarding public sector financial reporting in general have not changed since the *Strategy Review* report.

### Question 1 to Council members

What are the views of Council members on what impact expanding the organisation's remit, as implied by Option 1, would have on the Foundation's ability to achieve its current mission?

### ***Political challenges: legitimacy***

25. One of the issues IPSASB has faced is in gaining legitimacy and authority for its standards. As the consultation document makes clear, that one of the reasons for national authorities not having adopted 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 similar challenges, but we have worked hard over the past years to achieve that 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, we believe, even more challenging, as would be the risks of politicisation of the standards. The challenge is made even more daunting because one major jurisdiction (the EU) is proposing to adopt a different approach, even if it envisages close co-ordination with the IPSASB.

### Question 2 to Council members

What are the views of Advisory Council members on the challenges that the Foundation would face under Option 1 in securing the legitimacy and authority of IPSASs, and do Council members have any thoughts on how such challenges might be addressed?

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<sup>13</sup> G20 Finance Ministers and Central Bank Governors Moscow Communiqué, paragraph 10, <http://www.fin.gc.ca/n13/13-025-eng.asp>.

**Funding and operational challenges**

26. 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. Nevertheless, in our view, this is a fundamental issue.
27. 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, and that no immediate source of funding is available for those costs. Looking at the costs of the PIOB as a precedent, in 2012 its total expenses were €1.4 million<sup>14</sup> (around £1.17 million), which we see as being more than ‘incremental’.
28. In our initial 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 paragraph 35 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. As Advisory Council members are aware, the IFRS Foundation also faces significant ongoing 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.

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<sup>14</sup> PIOB Financial Statements 2012, available at: [http://www.ipiob.org/media/files/attach/Financial\\_Statements\\_PIOB12.pdf](http://www.ipiob.org/media/files/attach/Financial_Statements_PIOB12.pdf).

### *Operational challenges*

29. 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's remit, 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's remit, we believe that the operational implications would be 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 three 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.

#### **Question 3 to Council members**

Do Advisory Council members have any comments on the funding implications and operational challenges of Option 1 in the consultation document and on how they might be addressed?

### ***Other implications and challenges***

#### *Governance: the Foundation's public accountability link to the Monitoring Board*

30. 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's proposals for the composition of a monitoring body to cover IPSASB activities are reproduced at Appendix D. The Review Group acknowledges that the composition 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. 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.

### *Governance: the Trustees' oversight*

31. 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. 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".
32. The staff are aware that there are a number of national precedents whereby one oversight body covers standard-setting in both private and public sectors (summary details of two such examples, the USA and Australia, are set out in Appendix C), 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 are not dependent on whether or not the jurisdiction supports long-term convergence between standards for the private and public sector.
33. 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 subcommittee 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, as referred to in paragraph 18 above, which is scheduled to start in 2015.

### *Technical challenges*

34. The consultation document focuses on the governance and oversight of IPSASB, but in our view it is difficult to consider these issues in isolation from the question of taking over responsibility for IPSASB as a whole. Option 1 would have significant implications. The current liaison arrangements between the IASB and IPSASB are set out in paragraph 19, and the IASB-IFAC MoU also contains a provision that, in the medium to longer term, the two boards will mutually consult on projects in which 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.

35. 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 it would also bring challenges. Some questions that strike us are as follows. Would there, for example, continue to be two boards? If so, would IPSASB retain its independence to review and modify IFRS as at present? What role, if any, would the IASB play in IPSASB's consideration of public sector specific issues, such as accounting for social benefits? What would be the impact be of the need to consider public sector aspects of technical projects, for example in terms of timing?

#### Question 4 to Council members

Do Advisory Council members have any views or comments on the challenges and implications of Option 1 as set out in the section above?

### General views on the consultation document

36. In addition, we would welcome the views of the Advisory Council on the consultation document in general. In particular we would welcome comments on a number of the views and assertions made in the consultation document, including those set out below.
37. 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 themselves (consultation document, page 12, referred to in paragraph 14 above). However, 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". In the staff's view, it is not clear that there is such an inherent conflict,
38. 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 EC documents, there are other significant challenges and issues that prevent them from adopting IPSASs.
39. The staff view is that there is also a need to consider carefully the main implications of the EU's decision (referred to in paragraph 16 above) 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.

**Question 5 to Council members**

Do Advisory Council members have any other views or comments on the proposals that they think should be brought to the Trustees' attention?

**Appendix A****Extract from European Commission report of 6 March 2013 ‘Towards implementing harmonised public sector accounting standards in Member States’<sup>15</sup>**

The overall conclusion is twofold. On the one hand, it seems clear that IPSAS cannot easily be implemented in EU Member States as it stands currently. On the other hand, the IPSAS standards represent an indisputably ideal reference for potential EU harmonised public sector accounts. On the one hand, the following concerns will need to be addressed:

- Currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonisation in practice.
- At its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, and does not take sufficient account of the specific needs, characteristics and interests of public-sector reporting. A major issue is the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU.
- At present, IPSAS can also be regarded as insufficiently stable, because it is expected that some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework, which is expected in 2014.
- At present, the governance of IPSAS suffers from insufficient participation from EU public-sector accounting authorities. During 2012, the governance framework of IPSAS was being reviewed to address issues of concern to stakeholders. Any reform should ensure that the independence of the standard-setting process is strengthened, while public sector-specific needs are effectively addressed. In addition, the IPSAS Board currently seems to have insufficient resources to ensure that it can meet, with the necessary speed and flexibility, the demand for new standards and guidance on emerging issues in the evolving fiscal climate, particularly in the wake of the crisis.

On the other hand, most stakeholders agree that IPSAS would be suitable as a reference framework for the future development of a set of European Public Sector Accounting Standards.

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<sup>15</sup> Report of the Commission to the Council and the European Parliament *Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSASs for the Member States*, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0114:FIN:EN:PDF>.

**Appendix B****Summary of the Envisaged EPSAS governance structure to be established in the EU**Monitoring function

The EC public consultation document notes that, following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the EC itself, as well as by the European Council, the European Parliament and the European Court of Auditors.

Oversight function

The proposal is for the establishment of an **EPSAS Governance Advisory Board (EPSAS GAB)**, which would be entrusted with specific oversight tasks. For example:

- provides an annual report to the European Parliament and the Council on EPSAS standard-setting procedure as regards the implementation of the key principles and process;
- provides advice on appropriate measures to facilitate the implementation of the key principles and due process;
- provides advice on how to communicate the standards to users and preparers;
- provides advice to the EPSAS Committee on the work programme; and
- the EPSAS GAB chair may also participate in the EPSAS Committee as an observer.

The EPSAS GAB Chair could be selected by the Council, after consulting the EC, and approved by the European Parliament. The members of the Board would act independently and be selected from among experts possessing outstanding competence in the field of public sector accounting standard-setting, would perform their duties in their personal capacity, and would be selected to provide a range of complementary skills and experience. After consulting the Commission, the European Parliament and the Council could each appoint the same number of members of the Board.

Standard-setting function

It is envisaged that an **EPSAS Committee** would be the central element of EPSAS standard-setting. The Committee, to be chaired by the EC, would be composed of high level representatives from the EU Member States. A limited number of other EPSAS stakeholders may also be invited to participate as observers.

The proposals also include the creation of an **EPSAS Standards Working Group**, which would report to the EPSAS Committee. Chaired by the EC, the Group would comprise technical experts from public sector standard-setters and government accounting authorities, in order to support technical development and drafting work. The members would be nominated by Member States.

A limited number of other EPSAS stakeholders would also be invited to participate as observers. At a later stage, a second Working Group—the **EPSAS Interpretation Working Group**, to work in parallel with the EPSAS Standards Working Group—could be established to support the decision-making process and help the EPSAS experts within the Commission to resolve interpretation requests in an authoritative manner.

Below the level of the Working Groups, and reporting to them, detailed technical preparatory work would be carried out by ad hoc theme-based **EPSAS Task Forces**, where necessary. The members of the task forces would be volunteers from the relevant administrations of the Member States. Additional participation from other EPSAS stakeholders could be decided upon on a case-by-case basis by the working group which established the task force.

#### Consultative function

The proposals envisage the creation of an **EPSAS Technical Advisory Group**, within which there could be participation from a wide range of stakeholders including the IPSAS Board, government finance statisticians, supreme audit institutions, public and private accounting experts, academics and end users. This Group would enable stakeholders to discuss and debate EPSAS standards and interpretations, and thereby to provide advice to the two Working Groups.

**Appendix C****Examples of national arrangements with shared oversight of accounting standard-setting for both the private and public sectors**Australia

The Financial Reporting Council (FRC) is the body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standard-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 and promotes the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB).

The FRC currently has 16 Members. The FRC has a Public Sector Committee, which as at 30 June 2013 comprised five FRC Members and one non-FRC member (from the New South Wales Treasury).

The Australian Government, through the Treasury, provides funding for the purposes of the FRC, and this expenditure is included in the Treasury's annual financial statements. Funding for the AASB and AUASB is reported in the separate reports of each board. The majority of their funding comes through an appropriation from the Government.

USA

In the USA, the Financial Accounting Foundation (FAF) is responsible for the oversight, administration and finances of two standard-setting boards: the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), whose remits cover public and private companies, not-for-profit organisations, and state and local governments. Each board has an advisory council: the Financial Accounting Standards Advisory Council (FASAC) and the Governmental Accounting Standards Advisory Council (GASAC). The FAF is not responsible for US federal government financial reporting, the standards for which are developed by the Federal Accounting Standards Advisory Board (FASAB).

The FAF currently has 20 Trustees, three of whom are listed as having state or local government experience.

Funding for the FAF comes from three main sources: (a) subscriptions and publications; (b) accounting support fees for the FASB; and (c) accounting support fees for the GASB. On (b), the Sarbanes-Oxley Act provides for funding of FASB's recoverable expenses through accounting support fees assessed against, and collected from, issuers of securities. On (c), the Dodd-Frank Act provides for funding of GASB's recoverable expenses through an order from the Securities and Exchange Commission (SEC) instructing the Financial Industry Regulatory Authority (FINRA) to establish, assess and collect accounting support fees from its members.

**Appendix D****Review Group's proposal for the composition of the IPSASB Monitoring body**

For the accounting standard-setting activities of the private sector, securities regulators and regional and international public sector institutions represent the public interest, ie, the interests of investors who are the primary users of the financial information.

For the public sector, identifying those official sector bodies that shall represent the public interest is more complex. Indeed, users of the financial information are numerous, with diverse interests. The Review Group believes that the best means to ensure that the public interest is adequately represented is to balance these various interests in a monitoring body that includes representatives of:

- primary resource providers and users of the financial information including organisations representing the interests of Parliaments, supreme audit institutions, and citizens themselves;
- secondary resource providers and users of the financial information, including organisations 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 Review Group noted that these organisations and institutions may choose to be involved in the monitoring body as observers or by designating members acting ex officio.

February 26, 2014

Mr. Alexandre Makaronidis  
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GFS Quality Management and Government Accounting  
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By email: [ESTAT-IPSASconsultation@ec.europa.eu](mailto:ESTAT-IPSASconsultation@ec.europa.eu)

Dear Alexandre,

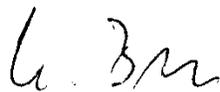
We are very pleased to provide you with our response to your public consultation paper on future EPSAS governance principles and structures. We very much appreciate the opportunity to provide our views. In addition, we are grateful for the opportunity you extended us to participate in the EPSAS development process, most recently in late January at your offices. We have found the discussions very valuable and appreciate the chance to exchange ideas and views in person.

As you are aware, Eurostat is an observer to the International Public Sector Accounting Standards Board (IPSASB) and we have benefited greatly from the participation of John Verrinder, as well as other Eurostat staff, at our meetings. We value the close working relationship we have with Eurostat and we look forward to this continuing.

We believe that it is important to address the question of governance and oversight and highlight that it will be important to take this forward in a way which complements and reinforces the implementation mechanisms that you are working towards. For that reason we have provided our general comments regarding appropriate governance principles for accounting standard setters. We also include our views on the roles of the proposed institutions you set out in your consultation paper.

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 FUTURE EPSAS GOVERNANCE PRINCIPLES AND STRUCTURES**

### **Introduction**

The International Public Sector Accounting Standards Board (IPSASB) was established to set internationally accepted financial reporting and accounting standards, known as International Public Sector Accounting Standards (IPSASs). The IPSASB is an independent standard-setting body under the auspices of IFAC. IPSASs are financial reporting standards set specifically for the public sector for application by governments of all levels and other international governmental organizations, for example the United Nations, the OECD, the European Commission, NATO and others.

The IPSASB's mission is:

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

Using IPSASs will enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of public sector accounting and statistical bases of financial reporting where appropriate.

In achieving its objectives, the IPSASB

1. Issues IPSASs;
2. Promotes their acceptance and the international convergence to these standards; and
3. Publishes other documents that provide guidance on issues and experiences in financial reporting in the public sector.

### **General Comments**

In developing this response to your consultation paper we provide our overall comments on various aspects of the proposals, including some concerns and suggestions for moving forward. We also addressed the specific questions at the end.

### **Governance Principles**

To start, we have focused on the governance principles, starting with our views on the principles that are integral for accounting standard-setting in general. 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.

There are already a number of common and well-accepted characteristics of governance among existing accounting standard-setting models. Any governance model established for EPSASs must have these characteristics embedded. These are:

### **1. *Accountability***

Those making the accounting standard-setting decisions are accountable to the public interest. This may be achieved through direct involvement or appropriate oversight by those considered representing the public interest.

Without appropriate structures and processes for governance and oversight and the related appropriate levels of transparency the public interest will not be protected. So there must be clearly defined components of the governance structure including external public accountability, responsibility for the oversight of the standard-setting board's due processes and operations and responsibility for the management and administrative functions of the boards.

### **2. *Independence***

The governance arrangements and standard-setting process are designed to avoid any undue influence from one party. Independence is essential to standard-setting processes. In this context independence refers to freedom from inappropriate pressure or bias in decision making.

Strengthening the independence of the standard-setting process will increase public confidence in the standard setting arrangements and, ultimately, strengthen financial reporting. Threats to independence are mitigated by i) a formally approved and highly transparent due process; ii) the involvement of external stakeholders to consult on technical issues and advise regarding agendas; and iii) observers in the standard-setting process to ensure that key stakeholders are closely involved in the standard-setting process

### **3. *Competence***

Those making accounting standard-setting decisions have the necessary skills and knowledge of the sector in which they operate. Integral to this is the need for a well-defined and rigorous nominations process that ensures an appropriate balance of membership based on desired expertise.

### **4. *Credibility***

In order that the processes are credible there are a number of factors to be considered. Firstly, stakeholders must be convinced they can play an appropriate role in the standard-setting process so they will be interested and willing to participate. In addition, the necessary financial and human resources must be available to do the work (capacity). Finally, the processes for accounting standard-setting must be clearly defined and open to public scrutiny.

In reviewing the consultation paper we note that each of these four principles is identified in your principles related to EPSAS governance structure and process, albeit described in slightly different terminology.

### **The EPSAS Governance Framework**

The consultation paper sets out proposals for a number of institutions to be part of the EPSAS Governance Framework.

In the IPSASB's view there is a lack of clarity in the paper about the role of the proposed institutions and it is often unclear how the governance principles described in the paper are encompassed in these



proposed structures. Because we are having difficulty understanding the proposed structures, we find it challenging to provide feedback on the EPSAS Governance Framework.

For example, if it is intended that the EPSAS Committee and/or the EPSAS Working Group sets their own accounting standards then it is clear that all of the governance principles must be integrated into the full standard-setting processes and structures.

However, if it is intended that the EPSAS Committee and/or the EPSAS Working Group will act as an endorsement mechanism of IPSASs then our response might be somewhat different. Because the IPSASB has strong standard-setting structures and processes in place that integrate the governance principles we could accept that not all of the governance principles would need to be replicated. What would be more important is that the structures and processes facilitate agreement among the Members States.

Our overriding comment is that the proposed governance structures must be clearly defined and that the governance principles must be embedded in the standard-setting processes. This is necessary for the EPSASs to be high-quality accounting standards that serve the public interest. We encourage you to consider this seriously as you clarify the proposed institutions and ensure that the governance principles are incorporated into them. This will ensure that EPSAS will be high-quality accounting standards and not diluted as a result of the processes established. Only in this way will they have the credibility that is needed.

### **Moving Forward**

At this stage we would like to acknowledge the considerable effort by the European Commission in applying IPSASs to its own accounts and the significant success of that initiative. We also highlight that a number of Member States have either adopted IPSASs or are in the process of adopting IPSASs – high-quality principle based standards set specifically for the public sector.

We are concerned that if these member states are required to use the as yet to be developed EPSAS framework, this will jeopardize their achievements to date. Since these Member States are already implementing high-quality accrual accounting standards, this would be a retrograde step at this time. They may also be putting at risk unqualified audit opinions and could be required to incur additional costs if a change is needed.

Given the current advanced state of the IPSASs, we would recommend that the continued use of IPSASs both by the EU and the Members States be allowed. The EU legislation, through the EPSAS delegated acts would then define the process of how to develop government accounting standards in those Member States that are not yet ready to apply IPSASs.

## Answers to specific questions

**1. Please state the main motivation of your interest in the public consultation.**

It is perhaps self-evident why the IPSASB would be interested in this public consultation since setting high quality accounting standards for the public sector is part of our mission and strategy and has been since the late 1990's. In addition, as the current proposals include using IPSASs as an indisputable reference source in developing EPSASs, the IPSASB has a key interest in working with you.

**2. Do you consider that the sets of principles described for EPSAS governance structure and process as well as for the EPSAS standards are relevant?**

Yes, although we think that the number of these can be reduced as many are interlinked.

**3. Please provide any comments or proposals on the principles**

Please see our comments in the general comments above.

**4. Following the normal institutional organization within the EU, the EPSAS governance would be subject to oversight by the Commission itself, and by the Council, the European Parliament and the European Court of Auditors. Do you consider that any further oversight function should be established?**

Please see our comments above. We find the proposed organization lacking clarity and we are unsure how, as proposed currently, it fulfills all of the governance principles laid out. Therefore we are unable to comment as to whether any further oversight function should be established.

**4a. Do you consider that the oversight role of the EPSAS Governance Advisory Board as outlined in the consultation paper would be appropriate for EPSAS?**

We find the current proposals confusing with respect to the GAB. We would expect that an oversight body would be established to ensure that the public interest is served by the standard setting functions. To this end the oversight body should ensure that the strategy and governance arrangements are in place and oversee their implementation.

On that basis, examples of activities we expect the oversight body to be responsible for include:

- Review terms of reference and approve changes;
- Oversee nominations and appointments;
- Ensure appropriate consultation and transparency in the development and approval of the strategy work program and budget of the different bodies; and
- Ensure that the standard setting due process is followed.

The roles and responsibilities outlined do not include all of these elements. Notably lacking is any commentary on nominations and appointments. This is a key aspect to maintaining independence of the standard-setting body and yet there appears to be no role for the GAB in this.

In addition, typically an oversight body would not be involved in the technical aspects of standard-setting and therefore they would not need to be experts in public sector accounting. We therefore do not agree with the proposed composition of members possessing "outstanding competence in

the field of public sector accounting standards setting”. We also think you need to clarify what the intent under the roles of providing “advice to the EPSAS Committee on the work programme”.

**5. Please provide any comments or proposals on the oversight**

Please see our general comments above.

**6. Taking into account that stakeholders’ views could be collected by open consultations during the standard setting process, do you consider that an organised, formal representation of EPSAS stakeholders should be established?**

As outlined in our general comments above, we find the proposed structures and processes confusing and requiring clarification. Therefore we find it difficult to answer this question.

**6a. Do you consider that the role of the EPSAS Technical Advisory Group as outlined in the consultation paper would be appropriate for EPSAS?**

We find that that there is a lack of clarity about the role of the proposed TAG. It is not clear to us the purpose of the TAG. Therefore we find it difficult to answer this question.

**7. Please provide any comments or proposals on stakeholder involvement**

As outlined in our general comments above, we find the proposed structures and processes confusing and requiring clarification. Therefore we find it difficult to answer this question.

**8. If you think that both the EPSAS Governance Advisory Board and the EPSAS Technical Advisory Group would be appropriate for EPSAS could their role and tasks be fulfilled by a single advisory group?**

As outlined in our general comments above, we find the proposed structures and processes confusing and requiring clarification. Therefore we find it difficult to answer this question.

**8a. Please provide any comments or proposals on a single advisory group**

As outlined in our general comments above, we find the proposed structures and processes confusing and requiring clarification. Therefore we find it difficult to answer this question.

**9. Do you consider that an interpretation function should be foreseen for EPSASS?**

**9a. Do you consider that this interpretation function should be kept separate from the standard setting function**

**10. Please provide any comments or proposals on the interpretation**

Given the lack of clarity about the mechanisms for developing EPSAS we cannot respond to these questions.

**11. Do you have any additional comments concerning the proposed EPSAS governance structure**

See our overriding comments at the start of this response regarding the lack of clarity about the proposed mechanisms for developing EPSAS.

We are concerned that there are a number of things that have not been addressed in the paper and that need further development. These include but are not limited to:



- Secretariat function of the proposed governance framework
- Funding of the proposed structures
- The number of full-time professional staff