

April 30, 2014

The Chairs

The International Public Sector Accounting Standards Board Review Group

c/o Organisation for Economic Co-operation and Development

By email: IPSASB@oecd.org

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

Dear Review Group Members:

IFAC welcomes the opportunity to comment on the International Public Sector Accounting Standards Board Review Group's (the Review Group) proposed governance arrangements for the International Public Sector Accounting Standard Board (IPSASB) detailed in the Consultation Paper (the Paper). This matter has been ongoing for several years and we appreciate the efforts of the Review Group in working toward an enhanced set of robust and efficient governance arrangements.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

This response has been prepared following consultation across our broad constituent base, recognizing that some of IFAC's stakeholders may have different views on the issues presented below.

General Comments

IFAC believes that this review represents an opportunity to enhance the governance arrangements of the IPSASB in a timely manner. Importantly, it is also an opportunity to reflect the specific needs of the public sector; including opportunities for governments to engage with, and be an integral part of, the standard-setting process and its oversight, while maintaining the independence of the process.

IFAC has considerable experience and expertise in facilitating the establishment of monitoring and oversight arrangements for international standard-setting boards, which encompass a combination of private sector and public sector roles and are seen to operate in the public interest. As such, IFAC is well placed to provide a valuable contribution to establish monitoring and oversight¹ arrangements for the IPSASB, along with continuing to play an important role in supporting and facilitating its operation.

For several years, IFAC has been active in looking at options to enhance the governance of the IPSASB and for it to have arrangements similar to those for other international standard-setting

¹ The term "governance" hereafter to refer specifically to "monitoring" and "oversight" dimensions of governance.



boards supported by IFAC². In 2011, IFAC launched a targeted consultation on proposals for oversight for the IPSASB and there was acknowledgement by respondents of the need to have in place a set of fit-for-purpose arrangements. The need to enhance governance arrangements for the IPSASB was reinforced by various stakeholders in the [public consultation](#) on the governance of standard-setting arrangements undertaken by the Monitoring Group (MG) in 2012³.

It is also worth noting that key stakeholders continue to be positive about, and supportive of, the standard-setting work of the IPSASB. This means that governance arrangements need to be enhanced within the context of an already well-functioning board and are motivated from the perspective of completeness rather than to address any perceived shortcoming with the IPSASB's operations.

Status and Importance of IPSASs

Consistent with its message for the past several years, IFAC continues to call on governments to improve their transparency and accountability for the stewardship of their citizens' resources, as well as to providers of capital to governments. We believe that high-quality financial information is a precondition for informed decision making and improved societal outcomes. IPSASs are the only global and comprehensive set of accounting standards for the public sector.

Strengthening the governance of the IPSASB will enhance confidence in the standard-setting arrangements. This is important as some have commented that the absence of monitoring and oversight arrangements serves as an impediment to the adoption of the standards. IFAC recognizes that there are some who subscribe to the view quoted in the conclusions of the Review Group that "if IPSASs are to play a role which they have the potential to do in improving government accounting practices, it is essential to resolve questions related to their governance..." However, the reality is that IPSASs are already a major global influence on financial reporting in the public sector. Strengthening the current governance arrangements will further enhance the credibility of IPSASs and their influence on public sector financial reporting.

Over the last decade there has been an increasing interest in IPSASs and a strong trend toward their adoption, which is anticipated to continue. Currently, over 80 governments and public sector entities have either adopted or have processes in place to adopt IPSASs, directly or indirectly, including the government of New Zealand; South Asian countries including Thailand, Indonesia, and Malaysia; African countries such as Nigeria and South Africa; Latin and South American countries such as Peru and Brazil; and some European countries, including Switzerland, Austria, Lithuania, and Estonia. A number of international organizations have also adopted IPSASs; for example, the United Nations Systems, the Organisation for Economic Co-operation and Development (OECD), and Interpol. A European Commission (EC) report issued during 2013 considered the suitability of IPSASs for the member states of the European Union and described the standards as an "indisputable reference" in the development of European Public Sector Accounting Standards (EPSASs). Other countries,

² Other standard-setting boards supported by IFAC are: the International Auditing and Assurance Standards Board (IAASB), International Ethics Standard Board for Accountants, and International Accounting Education Standards Board.

³ Following this consultation (in which many respondents indicated a preference for the IPSASB to be subject to oversight by the Public Interest Oversight Board (PIOB)) the MG organized a roundtable of invited organizations to seek views on whether the PIOB should assume responsibility for oversight of the IPSASB. The decision reached by the MG following that roundtable was that it was not appropriate for the PIOB to assume such oversight responsibilities. On the basis of this decision, IFAC does not offer comments with respect to oversight by the PIOB being considered as an option.



including Russia, India, and China, have also signaled their intention to adopt, though specific deadlines have not been set.

Adopters of IPSASs are keen to see the IPSASB's agenda continue to make progress. Many organizations have built adoption activities into their plans based on the IPSASB's public timetable for completion of its current projects. The credibility of the Board and the timing of its outputs may be put at risk if there is undue delay in the completion of projects due to protracted implementation of enhanced governance arrangements. Accordingly, IFAC shares the concern of the Review Group that the implementation of new governance arrangements should not impede the IPSASB and its standard-setting efforts.

Key Characteristics of Governance Arrangements

IFAC believes that robust governance arrangements designed to protect the public interest are an essential feature of high-quality standard-setting arrangements for the IPSASB. The objectives in designing such standard-setting arrangements are set out in IFAC's [Policy Position Paper 3: International Standard-setting in the Public Interest](#) and include three critical aspects:

1. The overriding objective in the design of the standard-setting process is to ensure that the institutional arrangements are, and are seen to be, properly responsive to the public interest at a global level.
2. A key issue for the public interest is the legitimacy and independence of the standard-setting process, in order to increase public confidence in the standard-setting arrangements and, ultimately, to strengthen financial reporting. Key elements of the arrangements to increase legitimacy and independence are an external process for monitoring and oversight of standard setting, and increased transparency.
3. It is important to maintain the technical competence of the standard-setting process while ensuring that there is a sufficiently strong element of public oversight to achieve the aforementioned two objectives.

In 2003, an opportunity existed to revise the governance arrangements for other standard-setting boards supported by IFAC. These arrangements, which are still in place today, were established to serve three standard-setting boards developing professional standards for audit, ethics, and education, as well as the IFAC Member Body Compliance Program. In a similar manner, the current review of IPSASB governance represents a unique opportunity to have in place purpose-built governance arrangements for the IPSASB that are responsive to the specific needs of the public sector accounting standard-setting process. Accordingly, IFAC believes that independence, credibility, and legitimacy can be achieved by the adoption of measures that do not necessarily mirror existing arrangements for other international standard-setting boards but deliver against the key characteristics of effective governance arrangements.

In IFAC's view, Option 2⁴ in the Paper—*Establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC*—provides the best means of achieving a set of arrangements that are both fit-for-purpose and provide an enduring basis for meeting the governance

⁴ This option is denoted by the number '2' in the Paper, but is referenced as dot point B in Question 1 of Section V of the Paper. In our responses to the questions outlined in Appendix A, we make reference to Option B to be consistent with the question asked.



needs of the IPSASB. In our detailed responses to the questions in the Paper, we have outlined how this option could be operationalized.

The introduction of these measures will not be considered credible if they come with any form of caveat that the ensuing governance arrangements are considered temporary or transitional. As with any governance arrangements, best practice would indicate a review at some future date to ensure that the arrangements are operating as intended, and to evaluate whether further enhancements may be required. IFAC supports a five-year period, which it views as being an appropriate length of time for any new arrangement to be given an opportunity to be properly implemented and applied.

IFAC acknowledges that implementing enhanced governance arrangements alone may not address the concerns of some stakeholders about the need for governments to play a more active role in the standard-setting arrangements for IPSASB. To address those concerns, in addition to establishing a governance body there may be merit in considering the introduction of other forms of engagement and consultative arrangements, such as a Consultative Advisory Group (CAG), to provide governments with the opportunity to provide strategic and technical input to the IPSASB. IFAC recognizes that the involvement of governments in the standard-setting process is an important issue. However, we do not address potential consultative arrangements further in this response letter as it goes beyond the primary focus of the consultation—that is, monitoring and oversight arrangements.

Funding Requirements

It is important to identify a sustainable funding model that provides for the full scope of IPSASB operations and effective governance activities. While IFAC is committed to funding the operating activities of IPSASB to at least its current level, it has not projected to fund either increased operating costs as result of demands for greater activity or the establishment and operation of enhanced governance arrangements.

In the proposed governance model outlined in Appendix B, IFAC suggests that an appropriate cost sharing arrangement be developed so that the overall cost of governance does not fall disproportionately on any one body. As proposed in Appendix B, IFAC believes it is appropriate that it become one of the members of the governance group. In this position it would be expected that IFAC, along with all other members of that group, should meet their own costs to participate in that body and agree a formula for the overall costs of governance; with the costs to be shared by members of the governance group and others who have an interest in the enhancement of the credibility of the standards that would be achieved by having oversight arrangements in place. We acknowledge that some see the funding of oversight arrangements by IFAC as giving rise to a potential conflict of interest.

Next Steps

IFAC is fully committed to attaining workable and credible enhanced governance arrangements for the IPSASB and would be pleased to assist the Review Group with its efforts.

Our responses to the questions in the Paper are set out in Appendix A and the details of how we think the second option could be operationalized are set out in Appendix B. We have also identified in Appendix C some points in the Paper that would benefit from clarification should they be included in the Review Group's final recommendations.

IFAC believes that it is in the public interest to ensure that this consultation follows an appropriate due process. That is, that the consultation continues to be conducted in an open and transparent manner,



all feedback to the Paper is considered, and that stakeholders are allowed to fully participate, where appropriate, in the development of the final outcome. We think it is particularly important that governments are engaged in the process of taking these proposals forward so that, from their perspective, these measures are considered to be fit-for-purpose.

Finally, IFAC believes that it is vital that this process reaches a conclusion by the end of 2014 so that efforts can be directed toward implementing enhanced governance arrangements during 2015.

Please contact me should you wish to discuss any of the matters raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Faye Choudhury", is positioned above the typed name.

Fayezul Choudhury
Chief Executive Officer

APPENDIX A

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

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

IFAC agrees that there is a need to strengthen the governance of the IPSASB and this is evidenced by the consultation undertaken by IFAC in 2011. That need was reaffirmed by many constituents in their responses to the [public consultation](#) on governance arrangements for standard-setting, conducted by the MG in 2012.

In IFAC's view, it is important to be responsive to concerns raised by some that the lack of formal public interest oversight is a barrier to adoption. Also, we consider that the test of any new governance arrangements for the IPSASB will be whether they are seen to safeguard the independence of the standard-setting process by establishing appropriate and proportionate checks and balances, which operate in an efficient and effective manner—with the ultimate test being that they enhance the legitimacy of the IPSASB's pronouncements.

IFAC believes that Option B (described in the question above), executed through a single governance body (refer to our response to Question 2), provides the best means of achieving a set of governance arrangements that are fit-for-purpose and meet the specific need for enhanced governance of the IPSASB. This approach addresses the governance function in a workable and pragmatic way and can be implemented in a timely manner with minimum disruption to the operation of the IPSASB and its standard-setting activities.

Beyond the architecture of these governance arrangements, IFAC believes an overriding consideration should be to establish and maintain a strong working arrangement between the IPSASB (as the standard setter), the governance body (protecting the public interest), and IFAC (facilitating and supporting the IPSASB).

IFAC does not agree with the challenges presented in the Paper with respect to Option B:

- The Paper states that a separate body that remains under the auspices of IFAC would not benefit from the "accumulated experience and expertise in public interest oversight established by the IFRS Foundation's MB and Trustees". However, IFAC believes that liaison and consultation by a newly established governance body with the Monitoring Group, Monitoring Board, PIOB and the International Financial Reporting Standards Foundation (IFRSF), as appropriate, could be readily facilitated to ensure that there is appropriate access to relevant experience and expertise.



- IFAC also questions the assertion that “overall cost of oversight would likely be increased, as it would not benefit in economies of scale...” compared with Option A. Based on the IFRSF [staff paper](#) prepared for the February 2014 IFRS Advisory Council meeting, it is not apparent that the incremental costs to absorb the governance of the IPSASB within the IFRSF would be inconsequential. It also raises broader operational and technical implications about the IPSASB coming within the IFRSF governance structure.
- IFAC is committed to enhanced transparency and accountability in the public sector and this is manifest in our past and continuing support of the IPSASB. We acknowledge that some view the financial support provided by IFAC to the IPSASB as having implications for the perceived independence of the IPSASB. In our view, our proposals for enhancing IPSASB’s governance arrangements address those concerns and provide appropriate safeguards for the independence of the standard-setting process.

IFAC does not believe that Options A and C are viable options given the imperative for fit-for-purpose governance arrangements that can be implemented within a reasonable timeframe. The Review Group acknowledges in the Paper that Option A would “present several difficult practical challenges”—we agree with those concerns.

In terms of Option C, re-establishing the IPSASB outside of IFAC—with its own monitoring and oversight bodies—is an option that lacks any detail and appears to be a hypothetical construct at this stage. If this option is to be pursued, IFAC believes a new initiative would need to be launched to outline how such an approach would work and how it would satisfy the overriding public interest objective.

In IFAC’s view, there are substantial challenges in achieving the necessary political consensus required to develop or significantly revise existing institutional arrangements in order to practicably implement either Options A or C. However, we acknowledge that if the right circumstances exist and the opportunity arises in the future, careful consideration and analysis would need to be undertaken to determine whether other options: would provide for more effective and credible oversight than the model in place at that time; and would enhance the legitimacy of the standards issued. As part of that analysis, consideration might also be given to whether any changed arrangements would achieve the goal of longer term convergence of private sector and public sector accounting standard setting governance that some strongly advocate and which is presented as a reason for supporting Option A.

Regardless of the option selected, as noted previously IFAC shares the concern of the Review Group that the implementation of new governance arrangements should not impede the IPSASB and its standard-setting efforts.

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?
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In the response to Question 1 above, IFAC indicates a preference for Option B, which is described in the Paper as requiring the establishment of two separate bodies. The Paper does not delineate the specific remit of each body in the proposed governance structure. It does, however, highlight three aims: “(i) to ensure that the public interest is being served by standard-setting activities (monitoring function), (ii) establish the standard-setting strategy and governance arrangements, and (iii) oversee their implementation (oversight function)”. IFAC agrees that ensuring that the public interest is being served by standard-setting arrangements is the *raison d’être* for enhancing governance arrangements



for the IPSASB. However, we strongly believe that “establishing the standard-setting strategy” should be separated from the “governance arrangements”. In IFAC’s view it is the role of the IPSASB to establish its standard-setting strategy as an independent standard-setting board, subject to appropriate public interest oversight.

IFAC has identified the following essential responsibilities for the oversight and monitoring functions⁵, which include:

- (a) Approval:
 - of appointments made by the Nominating Committee for the selection of the members and chair of the standard-setting board;
 - of the Terms of Reference for the IPSASB;
 - that due process is followed in the development and approval of standards;
- (b) Review of the completeness of the strategy and work plan of the IPSASB; and
- (c) Discharging public accountability for the operation of governance arrangements.

IFAC has previously commented that there is no one way in which governance arrangements should be defined and should operate, and different approaches can be equally effective in safeguarding the public interest⁶. Therefore, IFAC supports the Review Group’s view that “the monitoring and oversight functions could, initially, be merged and carried out by a single monitoring and oversight body”. As noted previously, IFAC’s view is that enhanced governance arrangements should be fit-for-purpose and implemented in a timely manner. With that in mind, we believe that there should be a single governance body. An assessment of the effectiveness of this model would be part of the review of the enhanced arrangements five years after they have been introduced (refer to fourth paragraph of section titled *Key Characteristics of Governance Arrangements* in our covering letter.)

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

As noted in our response to Question 2 above, IFAC believes that the “monitoring” and “oversight” functions should be combined into a single body. Accordingly, in the discussion below we refer to a single governance body.

IFAC believes it is important that individuals nominated and appointed to the governance body are suitably qualified, competent, respected, and exercise their responsibilities with the public interest clearly in mind. These individuals may be drawn from different sectors, including governments, providing the opportunity for broad-based participation in the governance arrangements for the IPSASB.

IFAC notes that the Paper draws on a set of competencies for the members of the governance body that are similar to those of IPSASB members. We question whether members of the governance body need to have “technical competence in accounting and financial reporting,” as their role is not to pass

⁵ Refer to Public Policy Paper 3, [International Standard-setting in the Public Interest](#), and IFAC’s response to the [Consultative Report on the Review of the IFRS Foundation’s Governance](#) in April 2011.

⁶ Refer to IFAC’s response to the [Invitation to Comment \(ITC\): IASB and IFRS Interpretations Committee Due Process Handbook](#) in September 2012.



judgment on the quality of the standards being set, but rather to oversee the process for setting those standards to ensure that appropriate due process has been followed. Membership of the governance body should not be seen as a proxy for well-functioning stakeholder participation in the standard-setting process through other means and consultative processes (refer to last paragraph of the section titled *Key Characteristics of Governance Arrangements* in our covering letter.)

While we agree that the membership of the governance body should include those “with recognized experience in the public sector,” we are not convinced that all members of the governance body would need to have such experience. For example, there may be merit in including individuals with international or national experience in the governance and oversight of international or national standard-setting, who can provide valuable insights and contributions about the standard-setting process and governance thereof, even though they may not have specific public sector experience.

IFAC respects the intentions of the Review Group to ensure the membership of the governance body is broad-based and balances the various interests in public sector financial reporting. However, IFAC is of the view that the governance body is likely to be less effective if it attempts to represent the entire IPSASB community. This would suggest the establishment of a very large and potentially unwieldy body. The size of the governance body should be such that it permits efficient and effective operation. IFAC believes that the priority in considering the composition of the governance body is to ensure that it comprises individuals recognized for their ability and commitment to safeguarding the public interest in the governance of the IPSASB.

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

Please refer to our response to Question 3 which recommends that “oversight” and “monitoring” functions should be combined into a single body.

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

IFAC has no further comments to make on the proposed governance arrangements for the IPSASB other than the points of clarification which follow in Appendix C.



APPENDIX B

IMPLEMENTATION OF OPTION B – KEY FEATURES

IFAC sets out below some suggestions as to how Option B could be operationalized having regard to the importance of the arrangements being both fit-for-purpose, and possible to implement within a reasonable timeframe and in an effective and efficient manner.

(a) *Establishment and Membership*

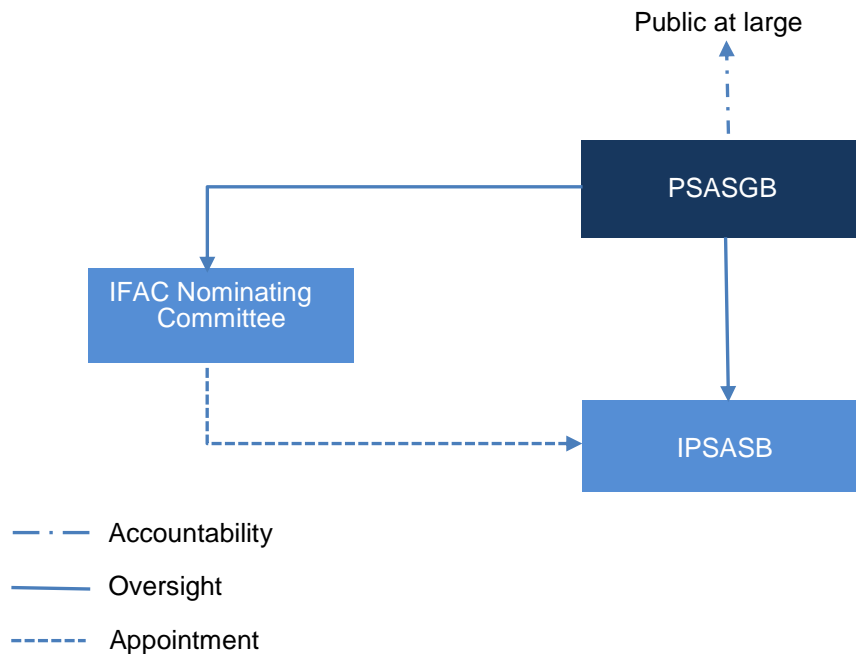
- Establishment of a single body charged with governance called the Public Sector Accounting Standards Governance Board (PSASGB).
- Membership of the PSASGB could comprise four permanent members—being appointed by the World Bank, IMF, OECD, and IFAC⁷—as well as provision for an appropriate number of rotating members. The rotating members could be appointed by a Nominating Committee, which includes the four permanent members. Time period restrictions on individual members should be imposed (time periods to be determined).

(b) *Role and Responsibilities*

- The role and responsibility of the PSASGB should be clearly defined, and include:
 - oversight of the IFAC Nominating Committee process with respect to the nominations and recommended appointments to the IPSASB;
 - approval of the Terms of Reference of the IPSASB;
 - review of the completeness of the strategy and work plan of the IPSASB;
 - oversight of the due process of the IPSASB; and
 - public accountability for the operation of governance arrangements.
- The PSASGB would not provide technical input to the development of the standards or other pronouncements of the IPSASB. Organizations that are members of the PSASGB and that wish to comment on these aspects could do so by participating in the formal due process followed in the development of pronouncements and other consultative arrangements that might be established.

⁷ It should be noted that there are a number of safeguards that currently exist to separate the work of IFAC from the independent standard-setting boards (including IPSASB) that IFAC supports. For example, the IPSASB's strategy and agenda setting, work program, and decisions are entirely independent of IFAC. As such, we consider it appropriate that IFAC has a seat on the governance group that oversees the quality of the due process followed by the IPSASB. This is consistent with the model used in the oversight arrangements for the other standard-setting boards supported by IFAC, whereby IFAC nominates one member to the PIOB. That member has the same rights and responsibilities as all other members of the PIOB.

Diagram – PSASGB Governance Relationships



(c) Operation

- The PSASGB should have an appropriately resourced permanent secretariat (or a rotating secretariat with rotation every three years); best accommodated in one of the organizations holding permanent membership (other than IFAC).
- The PSASGB would operate on a consensus basis.
- All members of the PSASGB would meet their own expenses for travel and the exercise of appropriate oversight.
- The PSASGB would meet as necessary.
- The PSASGB would need to determine the most effective manner by which to conduct its oversight. Some form of direct observation of IPSASB meetings would be desirable but it would be the prerogative of the PSASGB to employ whatever evidence-gathering approach it considered most appropriate.

APPENDIX C

CLARIFICATIONS OF POINTS IN THE PAPER

The following comments aim to clarify two points included in the Paper, which may be misunderstood by people reading it who do not have a detailed knowledge of how standard-setting arrangements operate. In the event that the final report of the Review Group continues to address these matters, IFAC believes it would helpful to clarify the following points.

The Paper:

- Notes that the IAASB establishes standards for the “the corporate and financial sectors.” In fact, the IAASB sets standards that can be applied across all sectors for audits of financial statements and other types of assurance on financial information. The International Standards on Auditing (ISAs) are used as the basis for the comprehensive set of International Standards of Supreme Audit Institutions (ISSAIs) issued by the International Organisation of Supreme Audit Institutions (INTOSAI) and used for audits performed in the public sector. Furthermore, ISAs are used in many jurisdictions for audits of financial statements of private companies and small- and medium-sized entities.
- Appears to suggest a role for the oversight body that goes beyond what we understand to constitute “oversight” in stating that “in the absence of an oversight body, the mechanism for arbitrating between competing priorities remains unclear.” IFAC notes that typically it is not the responsibility of the oversight body to act as an arbitrator to resolve competing priorities in the work plan of an independent standard-setting board. The oversight body’s role is focused on forming a view on the quality of the process, and not in directly shaping the outcome of the standards development. It remains the prerogative of the standard-setting board to set its own priorities, balancing the views of constituents and its overall public interest considerations.