IPSASB International Public Sector Accounting Standards Board

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Dear François,

We are very pleased to provide you with our response to your public consultation paper on the suitability of the International Public Sector Accounting Standards (IPSASs) for EU Member States. We very much appreciate the opportunity to provide our views. In addition, we are grateful for the opportunity you extended us to meet with you in person on April 13, 2012 at your offices, as well as the invitation to participate as an observer in both the Task Force and the GFSQM meetings. We found the discussions very valuable and appreciated 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 an observer, 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.

In the IPSASB's response below we have provided some information on the IPSASB's current actions related to public interest oversight of its activities. We believe that it is important to address the question of oversight first since this is of fundamental significance to the IPSASB and activities to implement oversight are well under way. It will be important that we can take these forward in a way which complements and reinforces the endorsement and implementation mechanisms that would be likely to be necessary for IPSAS adoption across EU Member States.

We have structured the remainder of our response to directly address the questions that accompanied the 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 THE SUITABILITY OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS FOR EU MEMBER STATES

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 functions as an independent standard-setting body under the auspices of IFAC, which took the initiative to set up this standard setter (originally the Public Sector Committee) in the late 1990s. 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.

Appendix A to this paper provides further background information about the IPSASB, including a listing of current IPSASB members, technical advisors, and observers and an outline of the due process for developing standards and guidance.

## *IPSASB* Oversight

To sustain the IPSASB's growing credibility as the international standard setter for the public sector it is necessary to consider the challenges facing the IPSASB, together with plans for public interest oversight of the IPSASB and the related governance changes that this will entail.

A public interest oversight regime for IFAC's other standard setting activities has been in place since 2003. This oversight regime was put in place with the Monitoring Group (MG), which includes representatives of the Basel Committee on Banking Supervision (the Basel Committee), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), the World Bank and the International Forum of Independent Audit Regulators (IFIAR). IOSCO appoints the chair of the MG. The MG appoints the members of the Public Interest Oversight Board (PIOB) through its Nominating Committee and monitors the execution by the PIOB of its mandate. PIOB is the mechanism for undertaking the actual oversight.

The current Chair of the PIOB is Eddy Wymeersch, Chairman of the European Corporate Governance Institute and former Chairman of the Committee of European Securities Regulators (CESR), and of the European Regional Committee of the International Organization of Securities Commissions (IOSCO). Four out of nine members of the PIOB, as well as the Secretary General, come from EU member states. All current PIOB members have worked during at least one part of their career for regulators, government and/or state owned enterprises.

In considering the design of an oversight system for international standard setting for the public sector, IFAC supports this same model, which is based on shared responsibility, and that has already been substantially applied by the IPSASB. The overriding objective of such a model must be to ensure that the institutional arrangements would be, and would be seen to be, properly responsive to the public interest at a global level. There are two critical factors in the proposed oversight arrangements to achieve this objective:

- A key issue for the public interest was to strengthen the legitimacy and independence of the standard setting process, 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 were an external process for monitoring and oversight of standard setting, and increased transparency; and
- Second, it was important to maintain the technical competence and expertise of the standard setting process while ensuring that there was a sufficiently strong element of public oversight to achieve the first two objectives above.

In 2003, IFAC recommended to the MG that the operations of the IPSASB should fall under the same oversight regime as applies to its other standard-setting activities carried out in the public interest. While the recommendation for oversight was not implemented at that time most of the other elements of the IFAC governance reforms were fully implemented by the IPSASB including:

- Appointment of public members to the IPSASB;
- A formal nominating process including interviews of candidates;
- An annual declaration of independence by the Chair and Members, as well as their employers;
- An annual performance appraisal for the Chair and Members;
- Formalized voting rules, consistent with the other standard-setting activities, specifically two-thirds of Members must be present for a quorum and two-thirds of Members must vote in favour for an affirmative vote ; and
- All aspects of due process are consistent other than the existence of a CAG and the related impacts on die process.

Related to the implementation of public interest oversight (whether by the PIOB or another body) is the need for a number of governance changes for the IPSASB. Re-establishment of an IPSAS Consultative Advisory Group (CAG) will be a crucial part of the new arrangements. In the preliminary consultations on oversight with stakeholders this proposal was unanimously endorsed.  IPSASB receives regular feedback from stakeholders on the outputs from its various projects. In addition, unlike the other standard-setting boards, the IPSASB has a number of major international bodies (including Eurostat) attending IPSASB meetings as official observers (as highlighted in Appendix A). This allows direct engagement in IPSASB debates which is beneficial as the standards develop.

However we are conscious of the need to reach out to and understand the need of the jurisdictions not fully engaged with our current work programme. We envisage that the CAG will meet twice per annum and will provide important ‘real-time’ feedback on current projects and future priorities. Although there is limited room for new projects in the current work programme we envisage a full public consultation on our work programme in 2014 when the Conceptual Framework project is planned for completion, releasing both staff and Board time.

In terms of the composition of the CAG, this is to be determined at a future time. We would expect that in addition to major international bodies there would be some representation from Ministries of Finance. This representation would include geographical considerations to ensure appropriate perspectives are included.

In addition, as the demand on the IPSASB increase there is a need for a full-time compensated Chair as well as additional staff resources. Increasing the number of public members (with a commensurate decrease in IFAC member body nominees) will also be considered.

Acknowledging the need for an appropriate public interest oversight regime for the IPSASB, IFAC and the IPSASB are committed to instituting such a regime as soon as possible. It is important that the IPSASB has public interest oversight in order that those adopting the standards are assured that the IPSASB is acting in the public interest and that its standards result from widespread and carefully considered comment from interested stakeholders around the world. Creating an oversight regime will also help provide assurance that the IPSASB has the long-term capability and capacity to independently and rigorously address public sector financial reporting issues.

The mandate of an IPSASB oversight body is yet to be developed. It is likely that an IPSASB oversight body would:

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

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

Members of the oversight body would provide oversight of due process only; responsibility for the technical content of the standards would remain with the IPSASB. As such, members of the oversight body would not be technical specialists.

In the preliminary consultations with governments and stakeholders general support for the PIOB undertaking oversight of the IPSASB was expressed, provided that its membership was revised to reflect public sector experience. Some governments expressed the view that a public sector version of PIOB was preferable. However, while new members of PIOB would need some public sector experience, its primary focus will be on due process rather than on technical content. It was therefore concluded that additional costs involved in setting up a separate public sector-specific oversight group would not justify the additional draw on the finite resources available for public sector standards setting. The need for some amendments to the composition of the PIOB, for example to add members with public sector expertise, has been acknowledged. There may also need to be consideration of the composition of the MG to ensure that public sector interests are represented. The other aspects of the governance reform, namely the implementation of a CAG, were virtually unanimously supported by all governments and stakeholders.

The MG is currently undertaking a public consultation on the governance (with special focus on organizational aspects, funding, composition and the roles) of the MG, the PIOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC. This consultation discusses possible oversight of the IPSASB by the PIOB and asks for feedback on this issue. Responses are due by June 28, 2012 and it is expected that we will have information on the responses late in the third quarter of 2012. If the feedback from this consultation is supportive of the PIOB undertaking oversight of the IPSASB the necessary processes could be implemented reasonably quickly, possibly as early as 2013.

Appendix B to this paper provides a chart demonstrating the interaction of the CAGs, the MG and the PIOB with the other IFAC independent standard-setting boards, as well as including an overview of both the MG and the PIOB.

**RESPONSES TO SPECIFIC QUESTIONS**

***1. Please state the main motivations for your interest in this 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. However, we think it would be appropriate at this point to reiterate the critical importance of public sector financial reporting.

Public sector financial reporting is important for the following reasons:

- Participation of governments in capital markets;
- Economic significance of governments;
- Accountability to stakeholders/constituents for the use of resources;
- Implications for efficiency and effectiveness; and
- Reliability of data used.

- ***Participation in capital markets***

Governments are major participants in capital markets globally. Consider the following trading volumes:

**2010 (New York Stock Exchange)**

| | |
|---|---|
| All equity trades | $218 trillion |
| Mortgage backed securities | $104 trillion |
| Mutual funds | $3 trillion |
| US Government securities | **$1,100 trillion** |

(*Source*: http://www.dtcc.com/downloads/annuals/2010/2010_report.pdf)

Note that the volume of Government securities is more than four times that of all equity trades. It is also three times the total volume of equity trades, mutual funds, and mortgage backed securities combined. This relationship is consistent in other capital markets globally. We tried to provide similar information in Europe, where we expect the same relation, however such data appears unavailable at this stage. More comprehensive financial information should lead to a better pricing of risk on sovereign debt and enable better informed markets. This will be far more important in future as markets are now sensitized to the differing levels of risk attached to governments' financial positions and future fiscal and expenditure plans.

- ***Economic significance***

The fiscal accountability of governments is significant for enhancing economic growth and development worldwide. The General Government Sector (GGS) comprises one-third (or more) of GDP in most countries. If Public Enterprises are included, the GGS is often more than half of GDP, as Public Enterprises are typically large.

Given the size of the public sector internationally, poor financial management results not only in a breach of duty to the taxpayer but also is a huge economic cost to the world's economy. The failure of fiscal management in the public sector is widespread and has an economic impact that could far exceed the impact of losses incurred by corporate failures, such as Enron and Lehman Brothers. Consider for example the impact of the banking crisis in Ireland on the Government. In respect of governments there is also a social cost to be considered.

- ***Accountability***

Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers to provide services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services.

For a government or other public sector entity, the discharge of accountability requires reporting to constituents on its stewardship of public resources. That includes reporting information that will enable users to form judgments about such matters as (a) the extent to which the entity has discharged its responsibilities in safekeeping and managing public resources, (b) the efficient and effective use of those resources in achieving specified service delivery objectives, and (c) compliance with relevant budgetary, legislative, and other controls regulating the raising and use of public monies. Such information is necessary for accountability purposes – to justify the raising and use of resources – and will inform public debate and provide input to decision-making by users of general purpose financial reports.

Citizens and other potential users of general purpose financial reports may have little direct or immediate capacity to make resource allocation decisions in respect of a particular public sector reporting entity on an ongoing basis. However, they can make decisions about such matters as their voting preferences, and representations they make to elected officials or other representative bodies – these decisions may have resource allocation consequences for certain public sector entities. In some cases, they can also make decisions about personal circumstances, such as choosing a school for their children, choosing a health service provider or choosing the city or suburb in which to live. However, information provided in annual or other general purpose financial reports about such matters as (a) the entity's management and use of public resources, (b) its achievement of service delivery objectives in the past, and (c) its likely future resource needs and service delivery objectives to support the ongoing discharge of accountability obligations, will also contribute to and (cumulatively) inform decision-making. Therefore, citizens and other potential users will also require information for accountability purposes, and as input to economic, political and social decision-making purposes.

- ***Reliability of data used***

Data generated by government accounting is also used as a basis for the preparation of Government Financial Statistics which are crucial to fiscal and spending decisions in most jurisdictions. Both GFSM2001 as well as ESA95 are statistical frameworks using the accrual basis, which require the systematic gathering and processing of accrual basis data. The IPSASB previously undertook a project to address harmonization of IPSASs and statistical accounting and in 2011 initiated a follow up project. This project, the Alignment Project, shows there is substantial convergence between the statistical frameworks and IPSAS. The possibility of further alignment is evaluated in this project, in which Eurostat is represented in the Task Force. Results are expected in the third quarter of 2012. The availability of entity level audited financial reporting data on an accrual basis reduces the risk of systematic errors in the data used for the preparation of Government Financial Statistics substantially and therefore in data used for policy making.

- ***Implications for efficiency and effectiveness***

Monies raised through taxation are allocated to spending, both recurrent (e.g., paying wages to public sector employees) and capital (e.g., spending on major infrastructure projects, such as roads and railways), for the benefit of the country and its citizens. This responsibility obliges governments to discharge their accountability by demonstrating the manner in which they have effectively and efficiently used the resources at their disposal. Additionally, where governments have shortfalls between amounts raised through taxation, and amounts outlaid as government spending, they raise funds through debt markets. Where this is done, governments have a public interest obligation to market participants—investors and potential investors—to provide timely, reliable, and detailed information on their financial performance and position, in the same way that listed companies have obligations to equity market participants. Finally, governments receive resources from international bodies such as the European Financial Stability Facility (EFSF) the European Stability Mechanism and the IMF and must be accountable for how such resources have been used.

The implications of not having robust, transparent and accountable arrangements of financial reporting and financial management include:

- A potential failure by government to deliver services and products in a most effective and efficient manner, and in a way that maximizes sustainable social benefits;
- Making decisions to invest, or not invest, today in projects and programs that result in foregone potential benefits, and which represent an opportunity cost where citizens in the future will pay for today's mismanagement; and
- Poor decision-making that may, at best, be made with a short-term focus or, at worst, be made in the self-interest of politicians and public servants, who have incentives to operate in a manner that may be contrary to the public interest.

As the international standard setter for the public sector the IPSASB is interested in improving the state of public sector financial reporting globally and we believe that adoption of IPSASs by the EU Member States would achieve this.

***2. Do you consider that International Public Sector Accounting Standards (IPSASs) are suitable for implementation in the EU Member States? (Yes/No/Partly)***

***Please explain the main reasons for your answer, and provide any available supporting information for your answer. If you answered "partly" or "no", do you consider that accruals accounting standards would nevertheless be suitable for implementation in the EU Member States?***

The IPSASB considers that the IPSASs are suitable for implementation by the EU Member States.

The IPSASs are developed specifically to address the financial reporting needs of public sector entities around the world. The term "public sector" refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The IPSASB recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing its standards the IPSASB aims to respond to and embrace that diversity.

A number of the IPSASs have been developed using International Financial Reporting Standards (IFRSs) as a starting point. However an analysis is undertaken to identify public sector specific issues and address them in order to ensure that the standards reflect public sector circumstances. In addition, the IPSASB has developed a number of public sector specific standards that are unique for the public sector. These are:

- IPSAS 21 *Impairment of Non-Cash-Generating Assets* – This IPSAS prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired, and to ensure that impairment losses are recognized.
- IPSAS 22 *Disclosure of Financial Information about the General Government Sector* – This IPSAS prescribes disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements.
- IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* – This IPSAS prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, notably taxes and transfers.
- IPSAS 24 *Presentation of Budget Information in Financial Statements* – This IPSAS requires a comparison of budget and actual amounts arising from execution of the budget to be included in the financial statements of entities that make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable as well as an explanation of the reasons for material differences between the budget and actual amounts.
- IPSAS 32 *Service Concession Arrangements: Grantor* – This IPSAS prescribes the accounting for service concession arrangements by the grantor, a public sector entity.

A number of governments and public sector entities around the world are already adopting the accrual IPSASs, which highlights their relevance and acceptance across jurisdictions. The standards are being adopted and applied or in the process of being applied by nations that are very diverse geographically, economically and culturally – for example, New Zealand, South Asian countries like Thailand, Indonesia and Malaysia, Latin American countries such as Peru and some European countries, Switzerland, Austria and Estonia among them.

The fact that so many diverse jurisdictions around the world are working to adopt the IPSASs successfully is an indicator that they are suitable for implementation in the EU Member States.

The main reason for implementing the IPSAS in EU Member States is to improve transparency and accountability as well as decision-making. Evidence from the users of the IPSASs (more than forty countries as well as the large number of international organizations) indicates that adopting the accrual IPSASs has improved transparency and accountability as well as decision-making.

It is important that governments provide accurate and complete information on assets, liabilities, revenues, and expenses and associated cash flows, in order to demonstrate accountability, provide high quality data for decision making, and to reinforce their own credibility. The type of information required can only be provided through a high-quality, robust, and effective accrual-based financial reporting system. Accrual-based accounting reinforces the principles of transparency and accountability. Under the accrual basis of accounting, transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, transactions and events are recognized and reported in the financial statements of the periods to which they relate. This is consistent with what is required of private-sector, publically listed companies to ensure that investors receive fully transparent financial information. Accrual accounting for governments is already broadly supported by the OECD, the IMF and the World Bank.

Most significantly, the accrual basis of accounting records and reports assets and liabilities that are relevant to fiscal policy and long-term fiscal sustainability, but which are not necessarily reported under cash accounting. When items are not recorded and reported, it is likely that they are also not well managed or are more susceptible to being manipulated. The accrual basis offers a more complete picture of a government's financial performance and position since it provides information not just on debt but also on governments' other liabilities, contingent liabilities, and guarantees. Accrual accounting practices improve not only the quality of financial information for all stakeholders (investors, taxpayers, ratepayers, public officials, suppliers, creditors, employees, the media, etc.), but also improve the quality of financial management, and they reduce the risk of financial reporting fraud. There is sometimes a misperception that accrual accounting neglects cash information. Accrual-based financial reporting requires accounting for and reporting on cash flows and a cash flow statement is required, so cash information is still available.

The only globally accepted high-quality accrual-based financial reporting system for the public sector is the International Public Sector Accounting Standards (IPSASs). IPSASs are principle based standards set specifically for the public sector that provide for the full disclosure of all assets, liabilities, and contingent liabilities, which is vital for assessing the true economic implications of public sector financial management. Global adoption of these standards will facilitate the comparability of such information on a global basis and assist government fiscal management decisions, as well as in resource allocation (planning and budgeting), monitoring, and accountability. In addition, harmonized accounting following a common standard is a necessary precondition for the preparation of ESA95 information. The development of standards by an independent standard setter also enhances credibility by reducing the potential for any undue internal or external influence on the preparer of financial reports.

While the EU has specific data collection requirements and could consider developing its own stand alone accrual accounting standards we do not believe that this is the most appropriate course of action. Establishing a process to develop independent standards from scratch, including public interest oversight, would be time consuming and extremely resource intensive. Instead the IPSASB believes that dedicating time and resources to support the further development and implementation of standards set by an existing independent standard-setter is a more efficient and cost-effective approach that would achieve the EU's goals and objectives. Secondly, there is a growing need for global harmonization of accounting standards for the public sector. We have seen an increasing interest and desire for comparability between governments globally from the users of government financial reports. This is becoming even more important in the wake of the sovereign debt crisis as global investors in government bonds look to compare the financial performance and financial position of governments. EU Member States need to be able to be compared not only within the EU but also globally.

International Financial Reporting Standards (IFRSs) are a comprehensive set of accounting standards that have global acceptance. However they are developed by the International Accounting Standards Board (IASB) exclusively for the private sector with no consideration of public sector issues. IFRSs have been adopted by governments in Australia, New Zealand and in the United Kingdom. It is interesting to note however that in New Zealand the government is transitioning from IFRSs to standards based on IPSASs as it considers that the IPSASB is addressing public sector issues directly and therefore is developing standards that are better suited for the public sector. Similarly in the United Kingdom, where IFRS-based reporting has been implemented at both central and local government levels, some form of adaptation (frequently based in requirements in IPSASs) has been made to almost 60% of the IFRSs in order for them to be used in the public sector context. In Australia, the national standard setter, the Australian Accounting Standards Board (AASB), develops specific paragraphs for inclusion in IFRS-based standards to deal with public sector issues. The AASB uses IPSASs as a reference point when it develops these additional paragraphs.

Many of the transactions entered into by governments are the same as those entered into by private sector entities and therefore it is useful to consider publications produced by the IASB. As previously highlighted many of the IPSASB's standards have been developed using IFRSs, as a starting point, but this does not mean that they are private sector standards. An analysis is done to identify public sector specific issues and address them. The standards are amended to address these public sector issues and to include terminology and examples that are more appropriate for the public sector. The IPSASs that have been developed from the IFRSs are not simply "carbon copies" of the IFRSs but rather reflect the unique characteristics of the public sector. We encourage you to review the IPSASB document "*Process for Reviewing and Modifying IASB Documents*" issued in October 2008 which we provided by email on April 5, 2012 which highlights the process for making public sector amendments to the IFRSs when appropriate.

These IPSASs along with the public sector specific IPSASs provide necessary guidance on addressing public sector issues.

For all of these reasons, the IPSASB considers that the IPSASs are suitable for implementation in the EU Member States.

3. ***What do you consider would be the main advantages, opportunities and benefits from any future implementation of IPSAS in EU Member states?***

IPSASs are the most globally accepted high-quality accrual-based financial reporting system for the public sector. The accrual-based IPSASs are designed to apply to the general-purpose financial statements of all public sector entities.

As noted, IPSASs provide for the full disclosure of all assets and liabilities, including the long-term obligations of government (e.g., employee pension obligations), and contingent liabilities, which is vital for assessing the true economic implications of public sector financial management. They enable assessment of the impact of fiscal policy decisions; assist external reporting by governments to electorates, taxpayers, and investors; and assist in internal management decisions in resource allocation (planning and budgeting), monitoring, and accountability.

While application of IPSASs would not solve the sovereign debt crisis, the appropriate use of the financial information rendered from such standards would assist public officials and other groups in assessing the implications of fiscal decisions made by government and for assessing the implications of financial policy issues that are being considered. As a comprehensive set of public sector accounting standards set specifically for the public sector, IPSASs would also provide better information regarding systemic risks associated with government liabilities.

Financial reporting using IPSASs supports the ability to conduct high-quality audits of governments' financial statements. This is particularly important for public sector auditors, supreme audit institutions, and the International Organization of Supreme Audit Institutions (INTOSAI), which have responsibility for, and interest in, the auditing of government information and reporting. The use of IPSASs provides a solid foundation and suitable criteria upon which auditors can undertake their work.

As previously noted, there is a significant degree of overlap between public sector statistical reporting and IPSASs. If a government has a comprehensive accruals accounting system, such as that designed to produce IPSAS financial statements, then this will facilitate preparation of fiscal statistics, and greatly improve the source data for GFS. As noted already, harmonized accounting following a common standard is a necessary precondition for the preparation of ESA95 information. Again, as noted, IPSASs are already substantially converged with Government Finance Statistics (GFS) and that the IPSASB has an ongoing project to further enhance and promote the reconciliation and harmonization of IPSASs and statistical reporting guidance for the public sector. Production of fiscal statistics can be further facilitated through (a) choice of GFS-compliant IPSAS options; and, (b) chart of accounts design. For example, many of the measurement differences can be overcome through choice of fair value options within IPSAS. All of the remaining classification differences between IPSASs and GFS can be addressed through chart of accounts design.

One of the first outcomes of the current project is a new *Appendix to the Government Finance Statistics Manual 2001* (*GFSM*) that focuses specifically on comparing GFS with IPSASs. Since IPSASs are the internationally recognized example of best practice in public sector financial reporting, they are considered the obvious counterpart to international statistical standards. This means that comparison with IPSAS provides a clear, comprehensive basis for a GFS comparison with accounting standards.

The GFSM recognizes the close relationship that exists between public sector statistical reporting and public sector accounting standards. Many of the rules, concepts, and procedures used in macroeconomic statistics are similar to those used in public sector accounting. International developments in statistical methodology and accounting standards for the public sector have been coordinated over recent years, to improve government reporting and fiscal transparency. A government's preparation of fiscal statistics that meet the guidelines set out in the GFSM is facilitated by application of high-quality accrual accounting standards such as IPSASs. This is because a comprehensive and harmonized accruals accounting system applied to transactions as they are recorded greatly improves the source data necessary for compilation of GFS.

Following the earlier work to harmonize IPSASs and GFS in advance of the revision of the System of National Accounts (SNA) the IPSASB developed IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, which has the objective of prescribing disclosure requirements for governments that elect to present information about the General Government Statistics (GGS) in their consolidated financial statements. In making disclosures about the GGS in IPSAS-compliant financial statements entities follow, with one exception, the requirements of IPSASs.

IPSASB's most important project currently is the development of a Public Sector Conceptual Framework (the Framework). The Framework will guide the Board's future standard setting activities. Although this is not due to be finished until 2014, Exposure Drafts on the critical areas of Elements and Measurement are anticipated to be issued in the third quarter of 2012. Once these EDs are published the IPSASB will be in a position to further consider its work programme and additional activities that need to be undertaken in the short term. Early in the third quarter of 2012 the IPSASB plans to undertake a public consultation, limited to its work programme for 2013/2014, in order to hear from constituents what the Board's priorities over the next year to two should be. As noted earlier, a more extensive public consultation will be undertaken once the Framework in completed in 2014.

4. ***What do you consider would be the main obstacles and disadvantages concerning any future implementation of IPSAS in EU Member States?***

The main obstacle generally presented about future implementation of IPSASs and accrual accounting is in respect of the cost of implementation. However, based on experience, the total costs are generally relatively small compared to the level of financial transactions of governments. They will be strongly influenced by the scale and pace of accrual implementation, as well as the sophistication of existing systems. Costs will be reduced where the extent of the changes required is lower, and they can be integrated with systems replacement cycles.

For example, we are aware that in Switzerland, for the Federal Government, the cost of implementing the accrual IPSASs was estimated at 65 million CHF – which included the replacement of the Enterprise Resource Planning (ERP) system. For larger states/cantons, e.g. Zurich, the cost was approximately 3 million CHF, excluding the ERP system which didn't need to be replaced there. Smaller states/cantons actually enjoyed savings as the State of Zurich made its documents available to them. In the United States, when individual states adopted accrual accounting the average cost per state government was in the 5 million USD range. In Canada, the cost for national and provincial levels of government, but excluding local level, was about CAD 120 million.

During our meeting with Eurostat on April 13, 2012 we heard concerns about the cost of implementation of the IPSASs in the State of Hesse which was estimated at close to 1 billion Euro. We understand that the Hesse reforms had a much wider scope than just the adoption of accrual accounting but also included budgeting, internal control and full replacement of IT. Also non-accounting related reforms, e.g. human resource management or project and performance management were included in the same reform. Nevertheless, the highest official estimate we are aware of is less than 25 percent of the figure quoted during our meeting. However, it is clear that this is not a typical example, as all the other examples we are aware of are much lower. In fact, cost estimates for other German Länder are also dramatically lower, e.g. in the Land Hamburg the cost for implementing accrual accounting was officially stated as "4.6 million EUR" by the responsible Finanzsenator (http://www.haushaltssteuerung.de/interview-modernisierung-des-haushalts-und-rechnungswesens-in-hamburg-michael-freytag.html). This figure for the Land Hamburg is roughly in line with the example from other countries, as stated above.

The other concern we have heard relates to the fear that certain entities would lose influence on financial reporting and GFS. Arguably a government using their own national standards might believe they have more influence in the standard setting process and development of standards and believe that their issues would be more likely to be addressed. However, such influence also impacts the credibility of financial reports that should be prepared to an independently set standard. An independent and competent public standard setting process, with high-quality oversight in support, should mitigate such a concern. The IPSASB has representation from governments around the world and the public consultation process means that concerns of constituents can be expressed and must be addressed by the IPSASB. We consider that by participating in the IPSASB's processes a government's credibility with respect to financial reporting would be augmented.

5. ***If you have any observations concerning the connections or links between possible future IPSAS implementation and financial reporting for the Excessive Deficit Procedure, please provide them here.***

EU Member States must avoid excessive budgetary deficits to operate smoothly. Under the provisions of the Stability and Growth Pact, they agree to respect two criteria: a deficit-to-GDP ratio of 3% and a debt-to-GDP ratio of 60%. If a Member State exceeds the deficit ceiling, the excessive deficit procedure (EDP) is triggered at the EU level.

In order to make appropriate assessments of deficit and debt to GDP it is important that high-quality financial information is available and that it is applied consistently between Member States.

The IPSASs are principle-based standards for the public sector that provide for the full disclosure of all assets and liabilities. Applying IPSASs would require the consistent reporting of all of a government's assets and liabilities thereby improving the quality of data collected, meaning that the data used for making the assessments required under the EDP would be consistent between Member States. In particular, the financial transactions of Member States, including the guarantees given, would have to be reported and would therefore be included as part of the assessments. As an example, derivative instruments would clearly have to be reported under accrual IPSASs.

The use of uniform accounting standards by all Member States could in fact complement and potentially even replace some of the guidance which is now included in the Manual on Government Deficit and Debt. The advantage of implementing such requirements at the entity level where the accounting transactions actually take place, rather than at the national statistical level is that they can be reported using the same set of standards and audited, thereby increasing the reliability of the data used by statistics and reducing the need for estimation and adjustments. In our view, this is a more rigorous approach than making such adjustments only at a later stage, when compiling statistics. In addition in an ever changing environment the IPSASB is in a position to react quickly to changes where needed.

IPSASs are set globally and need to encompass a range of practices around the world. In order to ensure consistency of adoption within Europe choices within certain standards such as in respect of current value measurement would need to be removed. The aim of IPSASB's current project to align IPSASs and GFS is to reduce the differences between IPSASs and GFS further. In addition, guidance will be developed on the IPSAS options which should be selected in order to maximize alignment with GFS, and advice on the use of charts of accounts to address the residual differences will be provided. There would also need to be a detailed comparison between IPSAS and Eurostat data collection requirements to identify gaps or differences. Option selection and data collection requirements could then be mandated by Eurostat in order to ensure consistency of financial reporting for the EDP.

6. ***Please give any views or comments concerning the process and timetable for any future implementation of IPSAS in EU Member states.***

In terms of the process for implementation it is important that a plan is developed that envisions the full implementation of IPSASs. The IPSASB is currently working on a project on first time adoption of IPSASs that will provide guidance on the initial adoption of IPSASs. Ultimately full implementation should mean that the financial statements can be audited and receive an unqualified audit opinion. There are governments in the world currently adopting accrual accounting that do receive an unqualified audit opinion. Liaison with relevant audit bodies throughout the process of implementation is important.

In the process of implementation it is advisable that implementation be sequenced. For example in some countries implementation is done first at the national level and then flows down to the state and local levels. A decision might also be made to exempt smaller entities from IPSAS implementation. This would allow prioritization of the economically more important entities.
Another consideration could be implementing the standards in phases. For instance, some governments decided to implement our standards in two or three phases. As an example, in Switzerland, the implementation at the level of separate financial statements was completed in 2007, but it took two more years to produce consolidated financial statements. Other countries, for instance Chile, have decided to implement the standards in three phases, which can be characterized as follows:

- Phase 1: Implement the difficult but highly beneficial standards;
- Phase 2:Implement those standards that are less complex or relatively easy to implement because of their similarity with existing arrangements;
- Phase 3: Implement those standards that are more difficult and that have less benefit than those of phase 1.

Obviously, an unqualified audit opinion requires the completion of all three phases.

With respect to a timetable for implementation, the IPSASB recognizes that implementation of the IPSASs is an ambitious undertaking, one that will take several years and require proper project management. Having the appropriate political will, capacity and resources in place is critical for success. There was initial discussion of a deadline of three years for full implementation, which the IPSASB considers to be overly ambitious. In reality it will be important that an appropriate implementation period be set, reflecting Eurostat priorities in terms of the areas of data and size of bodies where data quality improvement can or should be prioritized.

7. ***Please provide any other observations or information you would like to make available which are not covered by your earlier answers.***

We would like to take this opportunity to highlight to you our current work program and the number of public sector specific projects we currently have in progress. We have included with this response the most recent version of our agenda schedule which sets out the current projects on our work program with estimated timelines for completion. We have also provided links (where available) to various project pages on our website where further information is available.

While the majority of our first 32 accrual IPSASs were based on IFRSs, adapted to address public sector issues where warranted, our current work program is very heavily focused on public sector specific projects. In 2009 the IPSASB completed its project to substantially converge IPSASs with IFRSs issued at December 31, 2008. While it was already dedicating significant resources to addressing public sector specific issues, including most notably developing a public sector conceptual framework, the IPSASB decided to focus even more resources on projects that are public sector specific.

In 2011 IPSAS 32, *Service Concession Arrangements: Grantor*, was issued. This standard addresses accounting for service concession arrangements from the perspective of the grantor, which is typically a public sector entity. Other projects that are currently in progress include:

- ***Public Sector Conceptual Framework*** – This project is developing a conceptual framework that considers the unique characteristics of the public sector, including objectives and users. The project is currently the IPSASB's highest priority and is being developed in phases with final completion expected in 2014. http://www.ifac.org/public-sector/projects/public-sector-conceptual-framework
- ***Reporting on the Long-Term Sustainability of Public Finances*** – This project will produce a framework for the reporting and disclosure of information related to the long-term fiscal sustainability of governmental programs. An Exposure Draft was issued in 2011 with responses were due in February 2012. The project will develop a Recommended Practice Guideline (RPG) which is planned for March 2013. http://www.ifac.org/public-sector/projects/reporting-long-term-sustainability-public-finances

- ***Financial Statement Discussion and Analysis*** – This project is proposing to develop mandatory guidance on financial statement discussion and analysis that accompanies financial statements. An Exposure Draft was approved in March 2012. http://www.ifac.org/public-sector/projects/financial-statement-discussion-and-analysis-formerly-narrative-reporting
- ***Reporting Service Performance*** – This project uses a principles-based approach to develop a consistent framework for reporting service performance information of public sector programs and services that focuses on meeting the needs of users. An Exposure Draft is planned for March 2013. http://www.ifac.org/public-sector/projects/reporting-service-performance-information
- ***Public Sector Combinations*** **-** This project will prescribe the accounting treatment for public sector combinations. A Consultation Paper is currently being developed. http://www.ifac.org/public-sector/projects/public-sector-combinations-formerly-entity-combinations
- ***Alignment of IPSASSs and Public Sector Statistical Reporting*** – This project will involve an analysis of the differences between the revised *Government Finance Statistics Manual 2008* (GFSM 2008) and pronouncements in the *IPSASB Handbook of International Public Sector Accounting Pronouncements* and an evaluation of the extent to which further harmonization between statistical reporting guidance and IPSASs might be feasible. A Consultation Paper is being developed for approval in June 2012. http://www.ifac.org/public-sector/projects/alignment-ipsass-and-public-sector-statistical-reporting-guidance
- ***Revision of IPSASs 6-8*** – This project will consider potential changes to IPSASs 6-8 including such as whether the term control should continue to be used or whether a revised definition of control is appropriate, as well as whether controlled entities should be consolidated. As a result of the Alignment project it will also consider the updated (SNA 2008) national accounts tests of control. A Consultation Paper is being developed for approval in the first quarter of 2013. http://www.ifac.org/public-sector/projects/revision-ipsass-6-8
- ***First Time Adoption of Accrual IPSASs*** – This project will develop a standard that provides requirements for the first-time adoption of accrual IPSASs. This project will consider issues related to public sector entities that are moving from an accrual basis of accounting to accrual IPSASs as well as public sector entities that are moving from a cash basis, modified cash basis or partial accrual basis of accounting, to accrual IPSASs. http://www.ifac.org/public-sector/projects/first-time-adoption-accrual-ipsass
- ***Government Business Enterprises*** – This project will consider the definition of a government business enterprise currently established in the IPSASB Handbook as well as issues related to the accounting treatment. The project was only recently approved and will commence later in 2012.
- ***Public Sector Financial Instruments*** – This project will address public sector specific aspects of financial instruments. It has been delayed due to resource constraints but will commence later in 2012.
- ***Social benefits*** – The IPSASB started work on this key public sector project in 2002. To date it has issued an Invitation to Comment, a Consultation Paper and an Exposure Draft. However it has proven impossible so far to achieve consensus on an appropriate accounting treatment. During the development of the project the IPSASB determined that work on the Elements phase of the Public Sector Conceptual Framework project would be important in further informing work on social benefits. In addition work was initiated on the project on reporting on the long-term sustainability of public finance (see above) as an interim step in ultimately developing standards on social benefits. The Board has recently resumed discussions on this project and is considering an appropriate

timeline for re-initiating this project. Key to this will be the results of the planned public consultation on the IPSASB's work programme that will be undertaken in 2012.

We would like to remind you of a number of other materials we provided to your staff by email on April 5, 2012 that are useful reference materials for the IPSASB. These included:

- The list of IPSASB members, technical advisors, observers and staff;
- IPSASB Terms of Reference;
- Study 14 – guidance on transitioning from cash accounting to accrual IPSASs;
- Guidance the IPSASB uses for their process for modifying IASB documents;
- The Memorandum of Understanding signed in late 2011 between IFAC and the IASB;
- IFAC Public Policy Paper #4 and a related summary;
- The IFAC Consultation Paper (March 2011) about IPSASB oversight as well as the summary the IFAC Board received of the results of that consultation;
- IFAC Call for Nominations materials which includes IPSASB (see especially pages 46-52); and
- The recently issued Monitoring Group Consultation Paper on governance review and PIOB work plan.

In addition, we include with this response as additional reference material related to our due processes a document entitled "Structure of IPSASs". This document highlights the standard format and organization of the IPSASs. As noted above, we have also included our most recent agenda schedule.

# APPENDIX A

## Background Information about the IPSASB

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.

IPSASB has issued a comprehensive suite of 32 standards using the accrual basis of accounting, as well as one standard for jurisdictions using the cash basis of accounting before moving towards accrual accounting. It also issued a number of non-authoritative pronouncements, including guidance for the implementation of accrual accounting (the so-called "Study 14", now in its third edition).

IFAC provides approximately half of the funding for the IPSASB's operating budget, with the other half being received from a limited number of external sources, including the Governments of Canada and New Zealand, the World Bank, and the Asian Development Bank. In addition, a number of national standard setters and governments provide in-kind services by means of staff support.

**Composition and Meetings**

The IPSASB comprises 18 volunteer members from various parts of the world with experience and expertise in public sector financial reporting. Board members bring a wide range of experience from diverse backgrounds, including ministries of finance, government audit institutions, and public accounting. Members are appointed by the IFAC Board based on recommendations from the IFAC Nominating Committee. Members contribute about 500 hours per year to this activity, with the chair contributing about 1500 hours per year.

Members are appointed for a term of up to three years, which may be renewed for a further three years. Continuous service on the board by the same person is limited to two consecutive three-year terms, unless that member is appointed to serve as chair for a further term.

Of the 18 members, 15 are nominated by IFAC member bodies and 3 are appointed by the IFAC Board as public members. Public members may be nominated by any individual or organization, such as an academic institution. The key difference between public members and members nominated from IFAC member bodies is that public members represent the broad public and must be seen as credible to do this. All members, however, must sign a declaration annually that they will, as a member of the IPSASB, act in the public interest.

All members are entitled to appoint a technical advisor, who assists in preparation for the meetings and is encouraged to attend all meetings.

The IPSASB meets four times per year and all meetings are open to the public. Agenda papers, including minutes of the meetings, are published on the IPSASB's website.

**Observers**

There are a number of non-voting observers to the IPSASB. They have the privilege of the floor at board meetings and contribute to the IPSASB discussions. These observers are expected to support and promote the work of the IPSASB at relevant meetings and public forums. Although attendance at meetings and contributions during the meetings are valuable, the engagement of observers with the IPSASB beyond the meetings is even more critical in promoting the IPSASB's work.

A listing is provided below of all IPSASB members, technical advisors, and observers.

**Due Process**

As of December 31, 2011 there are 32 accrual IPSASs as well as a comprehensive cash basis IPSAS.
The IPSASB follows an established due process in developing IPSASs. This process is consistent in most respects with that of the other standard-setting boards, a process that was developed in consultation with international regulatory bodies such as the Basel Committee on Banking Supervision, IOSCO, the European Commission, and the World Bank. It provides an opportunity for those interested in financial reporting in the public sector, including preparers and users directly affected by the IPSASs, to make their views known to the IPSASB and considered in the standards development process.
Normally, but not necessarily, the IPSASB's due process for projects includes the following major components:

- Consideration of pronouncements issued by: The International Accounting Standards Board (IASB); national standard-setters, regulatory authorities and other authoritative bodies; professional accounting bodies; and other organizations interested in financial reporting in the public sector. When considering the applicability of International Financial Reporting Standards (IFRSs) to the public sector, the IPSASB analyses the IFRS to determine whether there are public sector specific issues that warrant departing from the accounting standards. This analysis is guided by "Process for Reviewing and Modifying IASB Documents" (provided by email), a process developed by the IPSASB to ensure that the IPSASs address public sector specific issues where assessed necessary. In addition, terminology is changed to reflect the public sector scope of documents and the style of the standards is changed to reflect IPSASB style as set out in the "Structure of IPSASs" document (to be provided by email) developed by the IPSASB.

- Exposure for public comment — Exposure Drafts of all proposed IPSASs are developed, usually with input from a task force or task-based group (TBG)[1]. The Exposure Draft will include a Basis for Conclusions, which summarizes the considerations the IPSASB thought relevant in coming to a position. In addition, alternative views (if any) are outlined in the Basis for Conclusions. In some cases, depending on the nature and extent of public sector issues involved, the development of an Exposure Draft is preceded by the issuance of an information paper or consultation paper which would also be subject to public consultation.
- Consideration of comments received on exposure — The comments received are considered by the IPSASB and the Exposure Draft is revised as appropriate. The comments are publicly available on the IPSASB website (www.ipsasb.org). If the IPSASB views the changes made after exposure to be substantive, it re-exposes the document for comment.
- Affirmative approval — Approval of Consultation Papers (where applicable), Exposure Drafts, Re-Exposure Drafts and IPSASs requires the affirmative vote of at least two-thirds of the members. All published IPSASs include a Basis for Conclusions that explains how the IPSASB reached its conclusions. Dissenting views on Consultation Papers and Exposure Drafts can be found in the minutes of the meeting in which the vote took place

[1] A task force may include IPSASB members, technical advisors and observers as well as other subject matter experts. Existing task forces are comprised of 7-10 people. Task based groups (TBGs) are typically comprised of only 3-4 people who are IPSASB members or in some cases technical advisors.

International Public Sector Accounting Standards Board

## IPSASB Members and Technical Advisors as at January 1, 2012

| Member | Employer and Position | Country | Technical Advisor |
|---|---|---|---|
| Andreas Bergmann, Chair (public member) | Zurich University of Applied Sciences, Institute of Public Management | Switzerland | Stefan Berger<br>Federal Department of Finance |
| David Bean, Deputy Chair | Director of Research & Technical Activities, Governmental Accounting Standards Board | United States | Mary Foelster<br>AICPA |
| Ian Carruthers | Policy and Technical Director, The Chartered Institute of Public Finance and Accountancy | United Kingdom | Chris Wobschall<br>HM Treasury |
| Marie-Pierre Cordier | Cour des Comptes | France | Baudoin Griton<br>KPMG Audit |
| Mariano D'Amore (public member) | University of Naples | Italy | Fabrizio Mocavini<br>Ministry of Finance |
| Rachid El Bejjet | General Treasury for the Kingdom of Morocco | Morocco | Aziz El Khattabi<br>Partner, KPMG SA |
| Sheila Fraser (public member) | Former Auditor General of Canada | Canada | Stuart Barr<br>Office of the Auditor General |
| Kenji Izawa | Partner Ernst & Young ShinNihon Partner, | Japan | Fumiki Sakurauchi<br>Member of the House of Councilors, Japan |
| Hong Lou | Deputy Director-General<br>Ministry of Finance | People's Republic of China | Yanchun Lu<br>Ministry of Finance |
| Thomas Müller-Marqués Berger | Partner, Ernst & Young | Germany | Gillian Waldbauer<br>Institut der Wirtschaftsprüfer |
| Masud Muzaffar | Controller General of Accounts<br>Government of Pakistan | Pakistan | Sajjad Ahmad<br>Member National Council<br>Institute of Cost and Management Accountants of Pakistan |
| Anne Owuor | Manager of Debt Control and Management<br>Kenya Power & Lighting Co. | Kenya | |
| Jeanine Poggiolini | Project Manager<br>Accounting Standards Board | South Africa | Lindy Bodewig<br>Office of the Accountant General<br>National Treasury |
| Ron Salole | Vice President, Standards, Canadian Institute of Chartered | Canada | Tim Beauchamp<br>Director, Public Sector |

| | | | |
|---|---|---|---|
| | Accountants | | Accounting Board<br>Canadian Institute of Chartered Accountants |
| Adriana Tudor Tiron | Babes-Bolyai University | Romania | |
| Isaac Umansky | Consultant | Uruguay | Marta Abilleira<br>Budget Advisor<br>Ministry of Economics |
| Ken Warren | Chief Accounting Advisor, Treasury, Government of New Zealand | New Zealand | Joanne Scott<br>New Zealand Institute of Chartered Accountants |
| Tim Youngberry | Acting Deputy Secretary Department of Finance and Deregulation | Australia | Clark Anstis<br>Senior Project Manager<br>Australian Accounting Standards Board |

### Observers to the IPSASB

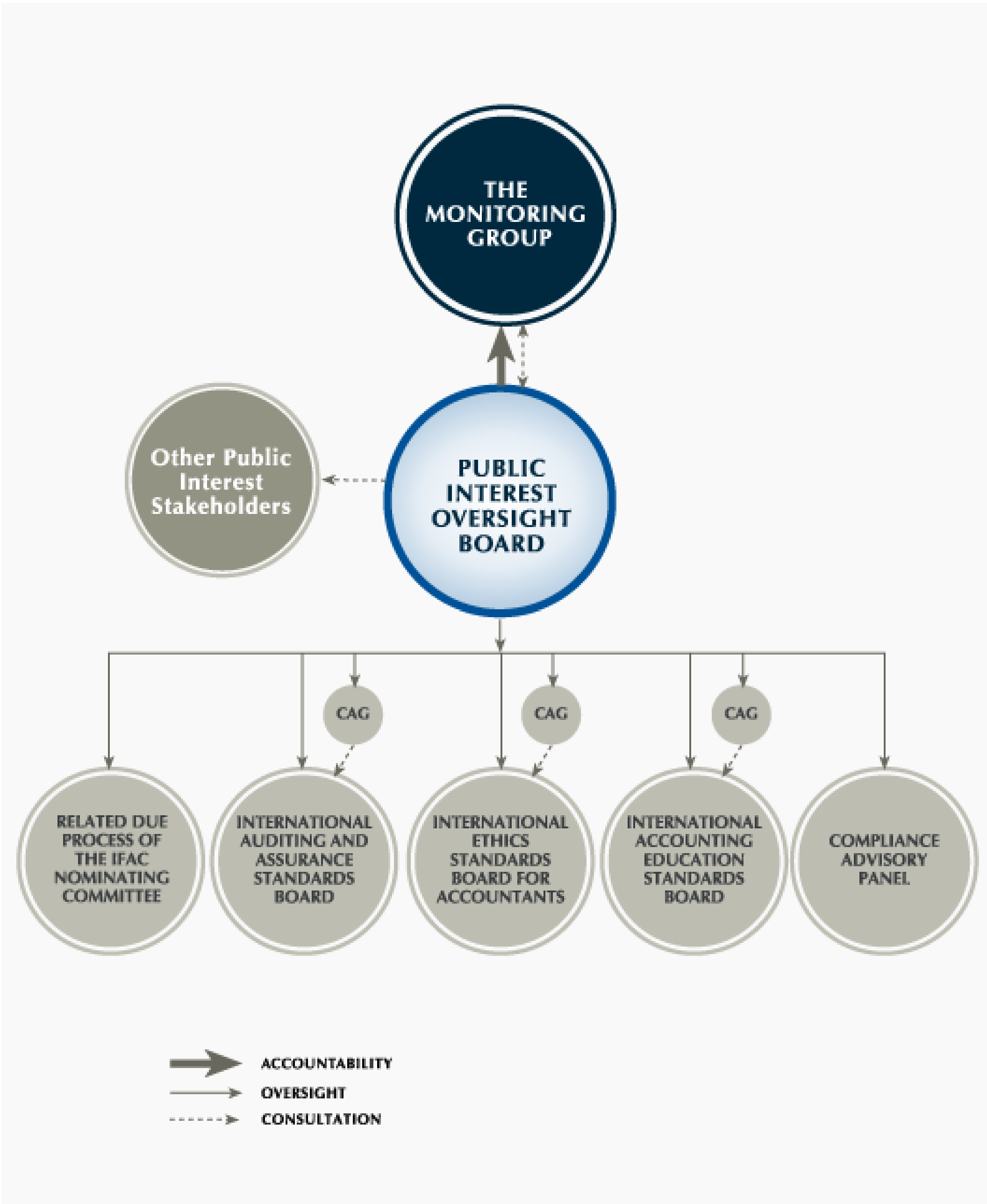
- Asian Development Bank (ADB);
- European Commission (EC);
- Eurostat (Eurostat);
- International Accounting Standards Board (IASB);
- International Monetary Fund (IMF);
- International Organization of Supreme Audit Institutions – Committee on Accounting Standards (INTOSAI CAS);
- Joint Pension Administrative Section of the Co-ordinated Organisations;
- Organisation for Economic Co-operation and Development (OECD);
- United Nations (UN);
- United Nations Development Programme (UNDP);
- World Bank

## APPENDIX B

International Public Sector Accounting Standards Board

# MONITORING GROUP AND PIOB INFORMATION

The following diagram describes the PIOB's governance and oversight structure:



*Overview of the Monitoring Group (MG)*

The MG is a group of regulatory and international organizations that have a responsibility to protect and advance the public interest and are committed to strongly supporting the development of high quality international auditing and assurances standards by IFAC and related high quality implementation practices by the audit profession. The MG includes representatives of the Basel Committee on Banking Supervision (the Basel Committee), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Organization of Securities Commissions (IOSCO), the World Bank and the International Forum of Independent Audit Regulators (IFIAR) which has recently become a MG full member after several years participating as an observer. IOSCO appoints the chair of the MG. The MG appoints the members of the PIOB through its Nominating Committee and monitors the execution by the PIOB of its mandate.

The MG's mission is to:

- Cooperate in promoting high-quality international auditing and assurance, ethical and education standards for accountants;
- Monitor the implementation and effectiveness of the IFAC Reforms, and, in that connection, to undertake an effectiveness assessment of the IFAC Reforms and other aspects of IFAC's operations that involve the public interest;
- Through its Nominating Committee, appoint the members of the Public Interest Oversight Board (PIOB);
- Monitor the execution by the PIOB of its mandate;
- Consult and advise the PIOB with respect to regulatory, legal and policy developments that are pertinent to the PIOB's public interest oversight; and
- Convene to discuss issues and share views relating to international audit quality, as well as to regulatory and market developments having an impact on auditing.

Further information can be obtained from the IOSCO website at www.iosco.org/monitoring_group/

IPSASB International Public Sector Accounting Standards Board

# OVERVIEW OF THE PIOB

The PIOB was formally established in February 2005. The establishment of the PIOB was the result of a collaborative effort by the international financial regulatory community, working with IFAC, to ensure that auditing and assurance, ethics, and educational standards for the accounting profession are set in a transparent manner that reflects the public interest. It was mutually recognized that high-quality, transparent standard-setting processes with public and regulatory input, together with regulatory monitoring and public interest oversight, are necessary to enhance the quality of external audits of entities. For this reason, the PIOB also maintains active liaison with both the Monitoring Group (MG) and independent audit regulators around the world.

The objective of the PIOB is to increase investor and other stakeholder confidence that IFAC's public interest activities – including standard setting by IFAC's independent boards –properly respond to the public interest. The PIOB oversees IFAC's Public Interest Activity Committees (PIACs): the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), their respective Consultative Advisory Groups (CAGs), and the Compliance Advisory Panel (CAP).

The PIOB provides oversight of due process only. It does not oversee the technical content of the standard-setting process. As such, members of the PIOB are not technical specialists or experts in the subject matter. The PIOB:

- Reviews and approves Terms of Reference;
- Evaluates the boards' due process procedures;
- Oversees the work of IFAC's Nominating Committee and approves the Committee's nominations to the standard-setting boards and the CAP; and
- Suggests projects to be added to the boards' work programs.

Further information can be found at www.ipiob.org.