

April 22, 2014

The Chairs
IPSASB Governance Review Group

By email: IPSASB@oecd.org

To the IPSASB Governance Review Group,

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

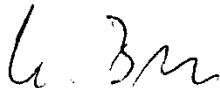
I would like to take this opportunity to express the IPSASB's gratitude to the Review Group for addressing this important issue with the goal of bringing it to closure. As you aware, the IPSASB has been working towards having oversight structures implemented for a decade. We believe that the IPSASB's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

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

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

Once again thank you for the opportunity to respond.

Sincerely,



Andreas Bergmann
Chair, International Public Sector Accounting Standards Board

RESPONSE TO PUBLIC CONSULTATION PAPER ON THE FUTURE GOVERNANCE OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Introduction

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

The IPSASB's mission is:

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

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

The Need for Public Interest Oversight

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

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

We agree with the need for public interest oversight. We would like to point out that virtually all aspects of the IPSASB's operations are the same as those for the Independent Standard-Setting Boards (SSB's) of IFAC, other than the specific oversight structures and processes. In addition, IPSASB is unique in that it has a large group of observers, including the Chairs of the Review Group. There are ten observer organizations that send delegates to IPSASB meetings. This allows direct engagement in IPSASB debates which is beneficial as the standards develop. In effect this has created a de facto oversight of the IPSASB's operations, albeit without formal accountability mechanisms.

We highlight this as a way to reiterate our view that the need for oversight relates not to existing deficiencies in operations but rather the desire to have the proper processes in place to ensure that it is clear that the public interest is currently being served, and to provide assurance that the public interest will continue to be served in the future.

Options for Establishing Public Interest Oversight of the IPSASB

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

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

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

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

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

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

In the IPSASB's view, option 1 does not address the issues adequately and, creates additional significant issues, with no clear solutions evident. One of the criticisms IPSASB is exposed to, for instance in the Eurostat Report on the suitability of IPSASs for EU Member States is that its suite of standards is too close to the standards issued by the IASB. Bringing IPSASB under the oversight of the IFRS Trustees would certainly reinforce this criticism.

As far as option 3 – Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies – the IPSASB did not think that this option as set out in the consultation paper had adequate detail to be able to debate as a realistic option. In fact the challenges set out in the paper mean that this option as described, like option 1, does not address the issues but rather raises significantly more issues.

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

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

Structure and Mandate of the Oversight Body

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

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

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

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

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

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

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

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

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

- Review and approve the terms of reference and scope for the IPSASB and any changes to them;

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

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

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

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

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

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

Consultative Advisory Group (CAG)

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

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

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

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

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

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

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

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

Other Issues

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

Full-Time Chair

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

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

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

Funding

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

Items requiring Clarification

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

i) Categorization of Members by Professional Background

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

We note that for 2014 the percentages for each category are as follows:

Professional Background	2014	2013 per Review Group	2013 per IPSASB
Ministry of Finance or Supreme Audit Institution	53%	44%	50%
Other (including National Standard Setters)	21%	28%	22%
Academia	16%	17%	17%
Private Accounting Practice	10%	11%	11%

ii) Public Sector Projects

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

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

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

Conclusion

In summary:

- The IPSASB unanimously supports the second option laid out in the paper – establishing separate oversight for the IPSASB under the auspices of IFAC since it meets all of the characteristics for strong public interest oversight of the IPSASB.
- The IPSASB is of the view that the monitoring and oversight function could be merged and carried out by a single body. It is important to consider the design and remit of this proposed body to ensure that it will meet the characteristics outlined in the consultation paper of accountability, independence, competence and credibility.
- The IPSASB supports the creation of a Consultative Advisory Group, although with some efficiency gains as compared to the other IFAC CAGs.
- The IPSASB supports the appointment of a full-time compensated Chair effective January 1, 2016.

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