

# **The International Public Sector Accounting Standards Board Governance Review Group**

Chairs: the International Monetary Fund (IMF), the Organisation for Economic  
Co-operation and Development (OECD), and the World Bank.

Members: the Financial Stability Board (FSB), the International Organization of Securities  
Commissions (IOSCO), and the International Organization of Supreme Audit Institutions  
(INTOSAI).

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

**PUBLIC CONSULTATION**

**January 2014**

## **ACRONYMS**

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

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

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

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

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

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

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

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

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

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## **STRUCTURE OF THE PAPER**

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

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

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

### **A/ Origins**

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

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

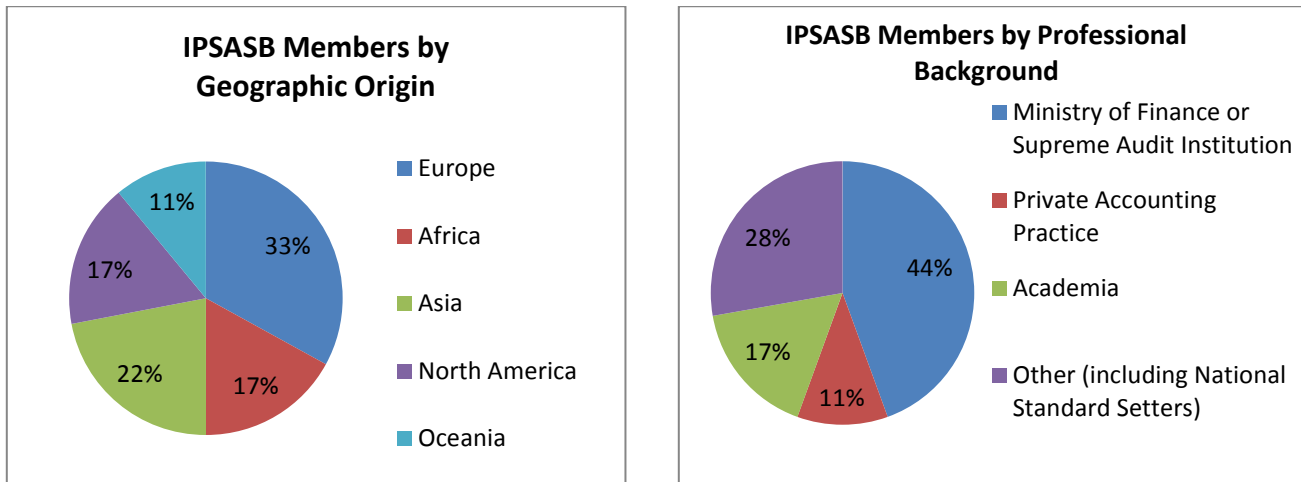
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<sup>3</sup> IFAC's mission is to advance the accounting profession and to promote high quality practices by professional accountants. It includes 173 national accountancy bodies as its constituent members.

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

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

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



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

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

## **B/ Achievements**

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

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

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

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

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

As at the end of June 2013, the IPSASB has issued 32 standards<sup>7</sup> and 2 RPGs<sup>8</sup>. At the same time, some issues of relevance for the public sector have not so far been addressed, including the accounting treatment of social benefits and other non-exchange expenses.

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

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

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

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

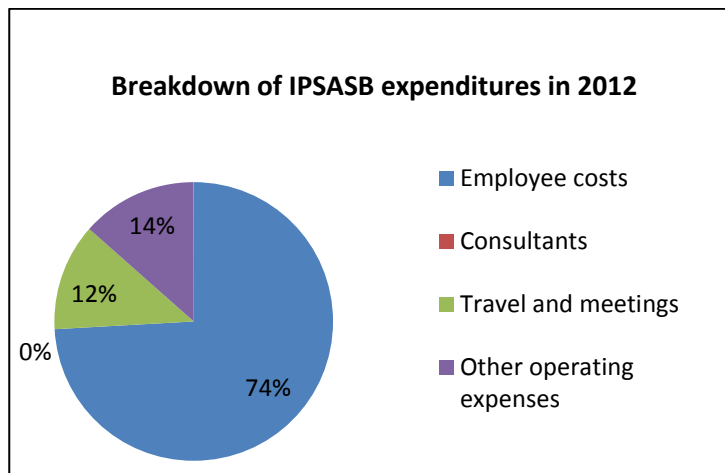


## C/ Funding

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

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

The breakdown of the IPSASB expenditures is currently as follows:



Source: The [IPSASB](#).

## II. EXISTING STANDARD SETTING MODELS

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

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

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

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

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

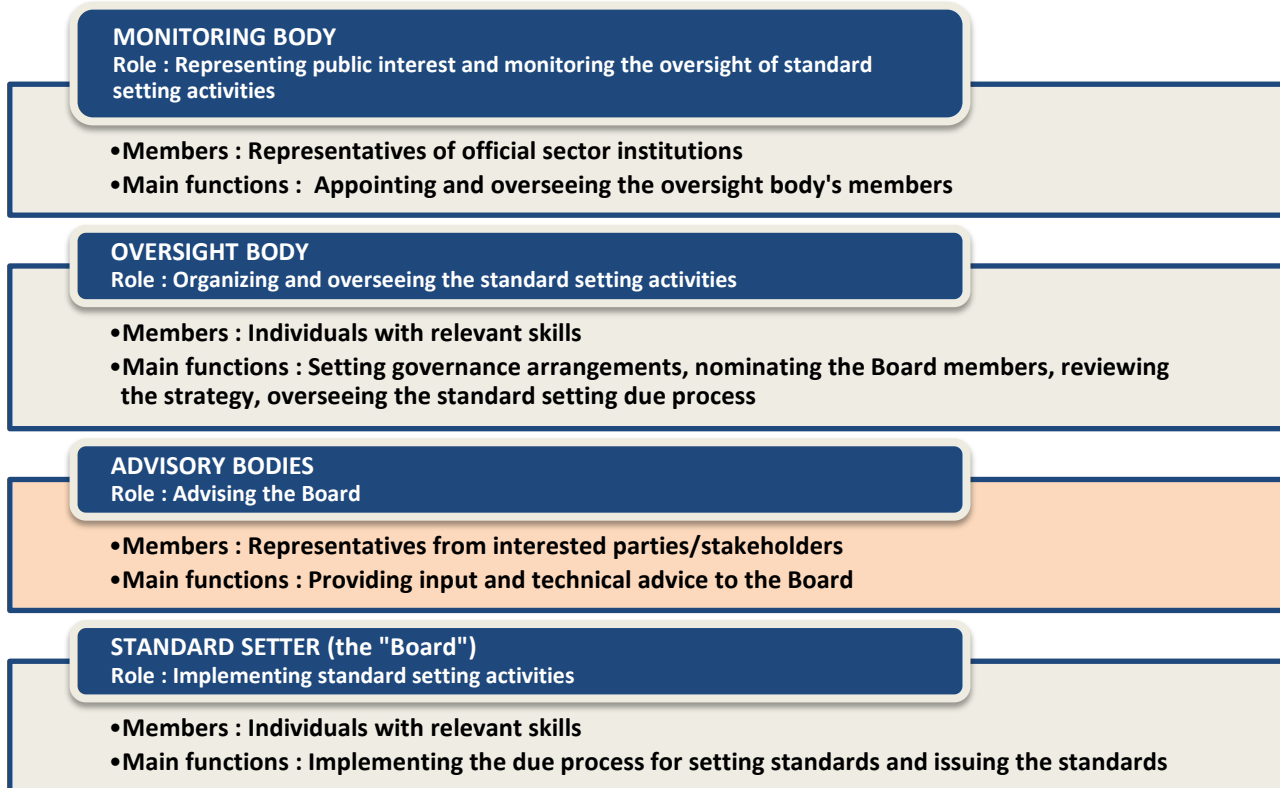
## **B/ Standard setting by a private sector body**

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

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

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

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



*1/ International Auditing and Assurance Standards Board*

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

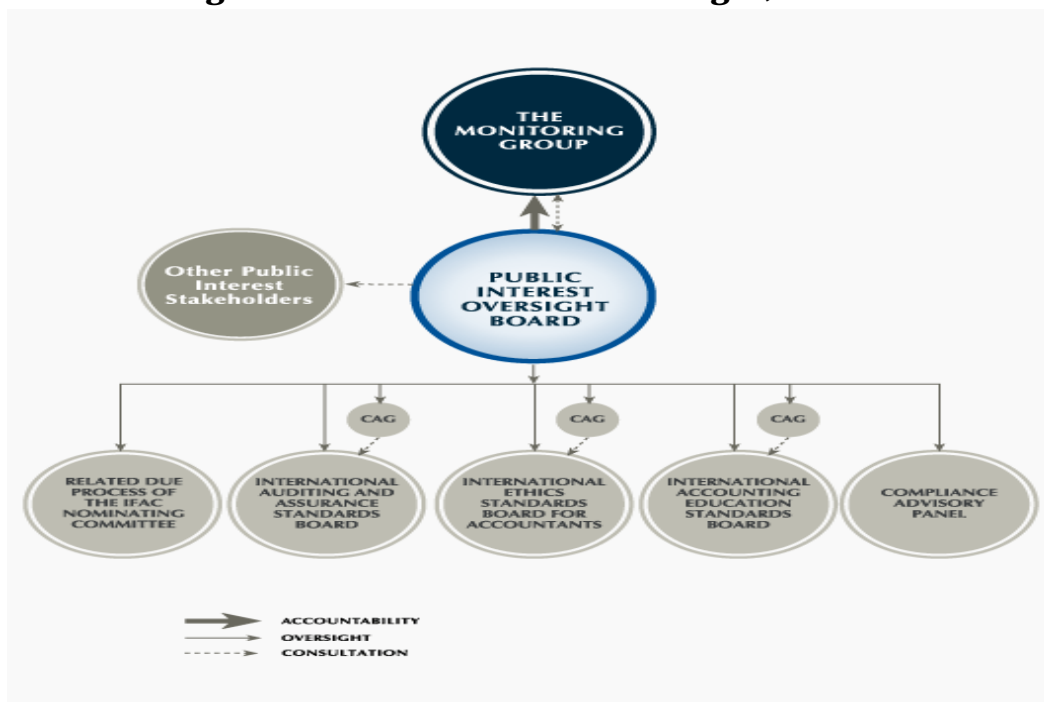
<sup>9</sup> See The [Monitoring Group](http://www.iosco.org) section of IOSCO's website for more information (<http://www.iosco.org>).

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

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

The diagram below illustrates the governance and oversight structure.

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



Source: [PIOB website](#).

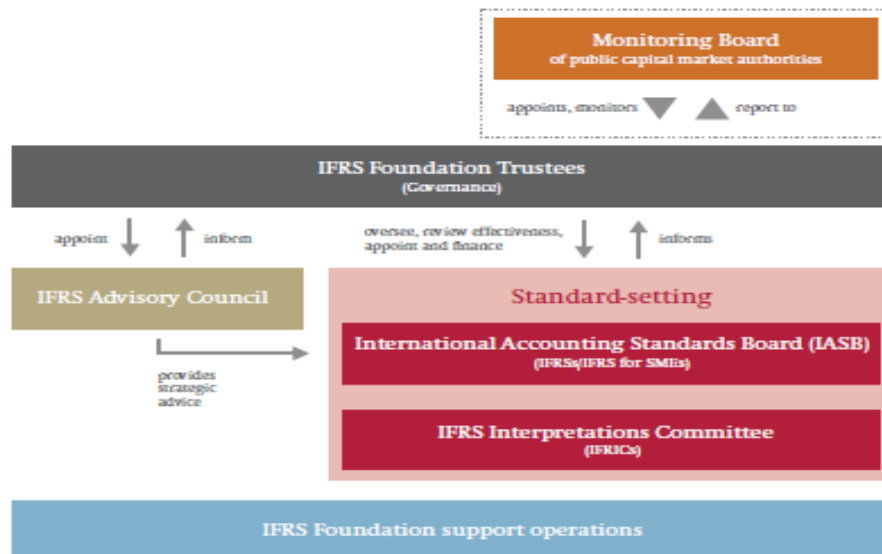
## 2/ International Accounting Standards Board

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

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

The governance and oversight arrangements are illustrated below.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

### *1/ Nomination process*

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

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

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

### *2/ Work program*

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

### *3/Due process*

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

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



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

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

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

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

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

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

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

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

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

In the context described in section III above, the remit of such monitoring and oversight bodies would be to:

- (i) review the current *terms of reference* of the IPSASB that define the standard setting process and approve any modifications to the document;
- (ii) oversee the *nomination* and appointment of the members/chairs of the different bodies involved in the standard setting process; and
- (iii) ensure appropriate consultation and transparency in the development and approval of the *strategy, work program, and budget* of the different bodies.

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

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

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

### *1/ Monitoring body*

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

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

- Primary resource providers and users of the financial information including organizations representing the interests of Parliaments, supreme audit institutions, and citizens themselves;
- Secondary resource providers and users of the financial information, including organizations representing the interest of investors in sovereign assets such as securities and other financial sector regulators;
- National monitoring bodies responsible for overseeing the work of standard setting for their domestic public sector institutions; and
- International institutions responsible for setting and promoting standards for government financial reporting, which can also be secondary resource providers in some cases.

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

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

## *2/ Oversight body*

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

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

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

- the speed with which the new governance arrangements can be put in place;
- the likely costs associated with different oversight options; and
- the availability of funding to meet those costs.

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

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

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

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

Bringing the IPSASB under the umbrella of the IFRS Foundation's MB and Trustees would also present several difficult practical challenges. First, the composition of the MB and Trustees would need to be expanded to include representatives of a wider public interest and individuals with competence in public sector accounting issues. Second, the additional costs associated with activities of the public sector subcommittee of the MB and public sector Trustees would need to be met for which no immediate source of funding is available. Third, these changes to the remit and composition of the Board and Trustees would likely have to await a review of the IFRS Foundation's constitution which is not expected for another two years. In its most recent Trustee's strategy review in February 2012, the IFRS Foundation considered the possibility of expanding its remit to include the IPSASB, but ruled it out for the time being as a majority of respondents preferred that the IASB continue in the short-term to focus on private sector standard setting.

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

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

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

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

Setting up a freestanding monitoring and oversight body would also present its own challenges. First, a separate board would not benefit from the accumulated experience and expertise in public interest oversight established by the IFRS Foundation's MB and Trustees. Second, the overall cost of oversight would likely be increased, as it would not benefit from the economies of scale and scope that would come from having single bodies overseeing both standard setters. Third, continued reliance on IFAC for the bulk of the IPSASB funding could raise questions in some quarters about the Board's independence from the accounting profession.

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

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

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

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

## V. SPECIFIC QUESTIONS TO CONSIDER

To move this discussion forward, the IPSASB Governance Review Group is seeking public input on the future directions for the governance and oversight of the IPSASB and IPSASs. All stakeholders, including ministries of finance, audit offices, parliaments, sub-national governments, national accounting standards boards, national accounting institutes, academia, and other concerned entities and individuals, are invited to comment.

In particular, the Review Group would be grateful for respondents' views on the following questions:

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

- a. Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees?
- b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?
- c. Reestablishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
- d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options?<sup>21</sup> If so, please describe.

**Question 2:** Do you agree with the proposed remit for the *IPSASB monitoring and oversight body(ies)* in section IV, paragraph A? Are there other issues that should be addressed?

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

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

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<sup>21</sup> Please note that expanding the MG and PIOB mandate to include the oversight of the IPSASB has been considered and declined by the MG, as explained in section IV.

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

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



## **APPENDIX A**

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

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

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

## APPENDIX B

### History of the IPSASB – Chronology of Governance Events

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

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

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

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