

# **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).

Observers: Eurostat, International Federation of accountants (IFAC), International Public Sector Accounting Standards Board (IPSASB) and Michel Prada.

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

### **Summary of Responses**

**October 2014**

## MESSAGE FROM THE CO-CHAIRS

The IPSASB Governance Review Group (“the Review Group”) conducted an online global public consultation, from January 17 to April 30, 2014, to garner views from the public at large on the future directions for the governance and oversight of the International Public Sector Accounting Standards Board (IPSASB).<sup>1</sup>

This consultation comprised five questions and was open to contributions from all interested parties.

The Review Group was pleased to receive a total of 43 responses, from a variety of institutions and regions, which underscores the widespread interest in improving the oversight of the IPSASB. The Review Group would like to thank all the respondents who have provided valuable input into the development of lasting solution to these issues which have been under discussion for a number of years.

All responses received during this global public consultation have been considered by the Review Group. This paper, *The Public Consultation on the Future Governance of the International Public Sector Accounting Standards Board (IPSASB) - Summary of Responses*, was developed and approved by the Review Group. It provides a summary of the responses received to the public consultation and analysis of the answers to the questions on which the Review Group requested the respondents’ views.

In addition to this analysis, all of the individual responses to the public consultation are available at the following address:

<http://www.oecd.org/gov/budgeting/IPSASB-Governance-Review.htm>

The Review Group met in September 2014 to discuss the results of the consultation and form a set of recommendations, which will be made public by the end of 2014.

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<sup>1</sup> The Review Group is chaired by representatives from the World Bank, International Monetary Fund (IMF), and Organization for Economic Cooperation 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). Observers include Eurostat, International Federation of accountants (IFAC), International Public Sector Accounting Standards Board (IPSASB) and Michel Prada.

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## I. RESPONSES TO THE PUBLIC CONSULTATION

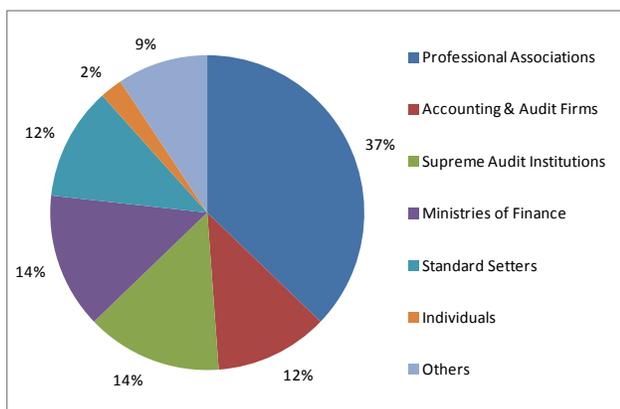
A total of 43 responses were received from a broad range of public and private sector and national, regional, and international organizations. Regarding the type of organizations who responded to the consultation, as shown in Figure 1:

- private sector actors, including accounting firms and professional accounting bodies, accounted for 21 responses (49%);
- public sector institutions, including ministries of finance and supreme audit institutions, accounted for 12 responses (28%);
- national and international accounting standard-setters accounted for 5 responses (12%); and
- other respondents, official international organizations and one individual accounted for 5 responses (11%).

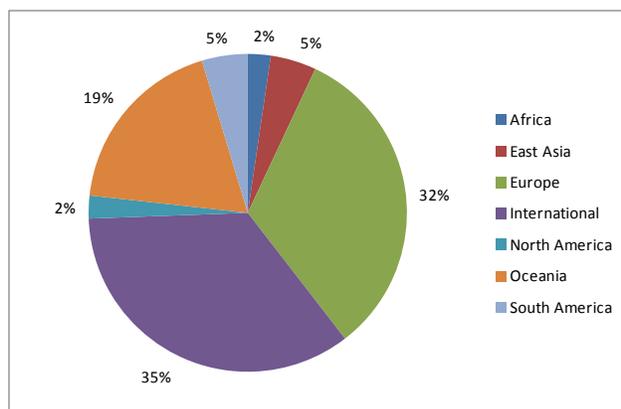
Regarding the geographic distribution of respondents, as shown in Figure 2:

- 15 responses (35%) came from international organizations or multinational firms ;
- 14 responses (32%) came from Europe;
- 8 responses (19%) came from Oceania (Australia and New-Zealand); and
- 6 responses (14%) came from the Rest of the World.

**Figure 1. Respondents by Type**



**Figure 2. Respondents by Region**



*Source: The Review Group*

## II. QUESTION 1: STATUS OF THE OVERSIGHT AND MONITORING BODIES

*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>2</sup> If so, please describe.*

All respondents agreed that the IPSASB's governance arrangements need to be markedly improved and underlined the potential of this public consultation to enhance the perceived legitimacy and implementation of international public sector accounting standards.<sup>3</sup>

The bulk of the responses (32 respondents or 74%) preferred option B "*Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC*". Respondents considered option B to be the most practical and feasible option in the near term, as it leverages the existing funding arrangements and minimizes disruption to the IPSASB's standard-setting activities.

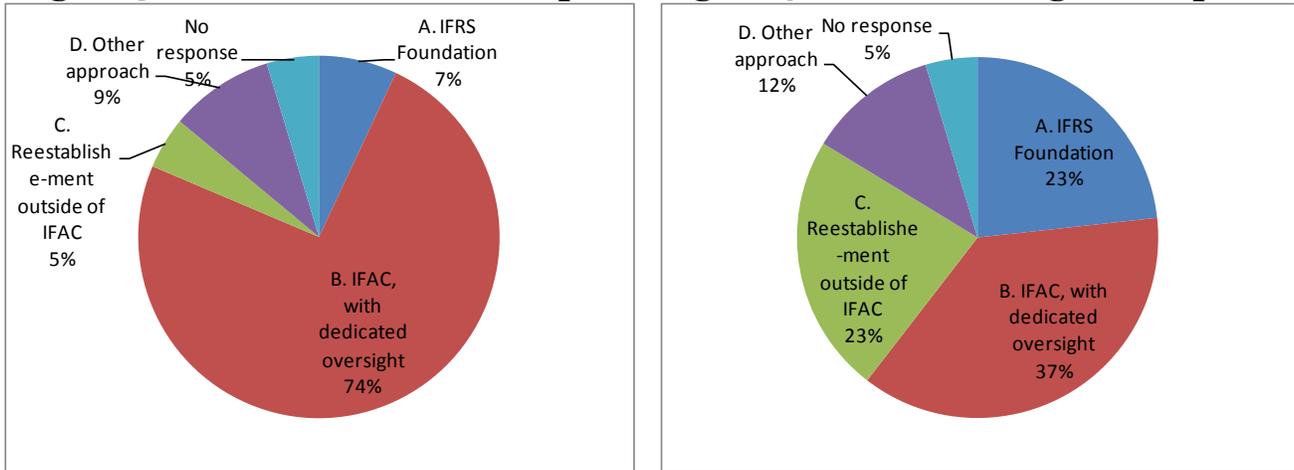
At the same time, of the 76% who favored option B, half of them (16 respondents) suggested that this option should be considered as a short to medium-term solution, and that more fundamental reforms which separate the IPSASB from the IFAC should be explored over the longer-term. However, there was no clear consensus on the nature of that longer-term solution, with options A and C receiving similar levels of support (23% for each option)

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<sup>2</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.

<sup>3</sup> While only one of the respondents indicated that it directly applies IPSAS (the UNO), some other respondents noted that IPSASs were "considered by the national standard setter"; that standards were developed "after considering IPSASB's approach to the issues"; or that "IPSAS are an important secondary source of GAAP". The UNO also underlined that, as one of the only preparers of IPSAS compliant financial statements, its role as an observer of the IPSASB was particularly important.

**Figure 3. Preferred Short-term Option** **Figure 4. Preferred Long-term Option**



Source: The Review Group

Those in favor of Option A “*monitoring and oversight of the IPSASB by the IFRS Foundation’s Monitoring Board and Trustees*” emphasized that the long-term benefits of integration between the public and private sectors standard-setting activities. They also considered that Option C “*reestablishing the IPSASB outside of the IFAC with its own monitoring and oversight bodies*” would be difficult to implement and may call into question the independence of the standard-setting process if the IPSASB’s funding were to come primarily from national governments. Professional associations, accounting and audit firms accounted for 50% of the respondents supporting this option. Ministries of finance accounted for another 20%. The bulk of respondents supporting option A originated from Oceania (50%).

Those in favor of option C stressed the need for direct official sector in the oversight and the development of public sector accounting standards in order to ensure the credibility, legitimacy, and relevance of the standards and independence from professional interests. They also noted that appropriate linkages with the IFRS Foundation’s private sector standard-setting activities could be established without bringing the IPSASB under its oversight umbrella. Official international organizations and supreme audit institutions accounted for 50% of the respondents supporting this option. Professional associations accounted for another 20%. Respondents supporting option C originated mainly from Europe (40%), or were international professional organizations or organizations (40%).

Other options were mentioned. Two respondent noted that that more innovative reforms could have been explored such as (i) an “hybrid solution” that expanded the scope of the

IFRS Foundation Monitoring Board (MB) and created a dedicated oversight board within the remit of the IFAC, and (ii) bringing the IPSASB under the umbrella of the United National System of National Accounts with an oversight body comprised of the United Nations, European Commission, the OECD, the IMF and World Bank. Another respondent called for the establishment of an independent accounting standards-setter for all sectors over the long-term.

## II. QUESTION 2: REMIT OF THE BODIES

*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?*

Most of the respondents (35 respondents or 81%) agreed or partially agreed with the proposed remit of the monitoring and oversight bodies. The 21 respondents which partially agreed noted mainly that the paper did not delineate the specific remits of each body of the proposed governance structure and emphasized the need for any new body to focus on a core remit of ensuring appropriate consultation and transparency in the development and approval of standards.

The core functions of the future IPSASB monitoring and oversight bodies mentioned by most of the respondents were as follows:

- approval of IPSASB’s terms of reference (ToRs);
- nomination and selection of IPSASB members;
- establishment of the IPSASB's operating procedures, consultative arrangements, and due process ;
- ensuring due process, adequate consultation, and transparency in the development and approval of the IPSASB’s strategy, work plan, and individual standards; <sup>4</sup> and
- ensuring that the public interest is served by all IPSASB activities.

Two respondents also mentioned the bodies should promote the adoption of IPSAS and seek sustainable sources of funding for the IPSASB’s activities.

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<sup>4</sup> Eight respondents noted that setting the standard setting strategy and the work program, based on a public consultation, should remain a responsibility of the independent standard setter.

The IPSASB's members' nomination procedure was highlighted as a major concern by five respondents (11%). These respondents all noted that the procedure should be clearly defined, but views on the appropriate solution differed. Two respondents suggested that the new body's role regarding nominations should be limited to reviewing the work of the IFAC's Nominating Committee and approving the IFAC Board's nominations to the IPSASB. One respondent noted that should the nomination of the IPSASB members be entrusted to the IFAC's Nomination Committee, the addition of public sector specialists to the Committee should be proposed. One proposed that the new body directly appoint or participate in the appointment of IPSASB members.

### **III. QUESTION 3 AND 4: MEMBERSHIP OF THE BODIES**

*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?*

*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?*

The bulk of the respondents (36 respondents or 84%) agreed or partially agreed with the Review Group's proposal for the composition of the monitoring and oversight body, which is as follows:

- 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.

Three respondents mentioned that a cross-membership with the IFRS Foundation could be envisioned, one other respondent proposed a cross-membership with the IFAC's PIOB. Four respondents only explicitly supported the membership of national bodies' representatives, while one excluded this possibility. One respondent proposed that the IFAC be appointed a member of the future governance body. Another respondent proposed to include representatives of service recipients in the oversight body. Last, one respondent noted that monitoring and oversight would be best provided by the international organizations represented in the Review Group, with possible addition of the UNO (UNCTAD in particular).

Differing views were expressed on the required competencies from the oversight body's members. Eight respondents underlined that that technical competence and public sector knowledge were not the only relevant criteria for nominating members of the bodies, for example experience with oversight of standard-setting could be considered as more important than knowledge of accounting and financial reporting, or experience in the public sector. At the same time, three others identified public sector experience as the main qualification for appointment.

Sixteen respondents (37%) supported the creation of a single "governance body." The main reason given for favoring a single oversight body was to limit the associated financial and administrative costs. Other respondents agreed with the proposition of the Review Group (copied above), but did not always clearly support the creation of separate monitoring and oversight bodies.

The ideal size of the future governance bodies was discussed by some respondents. Some respondents mentioned that a wide representation of stakeholders for the purpose of ensuring balance, independence, and credibility, but also noted that a more limited membership could be favored out of cost and logistical considerations. Some respondents seem to share the view that a limited number of institutions should be considered as the core members of the future governance body, while others could be appointed as rotating members.

Finally, two respondents stressed that the nomination principles, organization and functioning rules of the monitoring body need to be precisely defined, and made public.

#### IV. QUESTION 5: OTHER ISSUES

*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.*

Thirteen respondents (31%) were concerned about the funding of the governance arrangements and of the IPSASB activities. They noted that an estimation of the costs of the governance arrangements and operations of the IPSASB will be necessary, in order to define a long-term funding model for the IPSASB. Some of them underlined that diverse sources of funds would be necessary to insure the independence of the IPSASB.

The consultation paper did not ask any specific question on the establishment of a Consultative Advisory Group (CAG). Indeed, such a body would have no role in the monitoring and oversight of the IPSASB. However, the paper mentioned the possibility to set-up a CAG, whose function would be to be part of the IPSASB's process of consultation. The CAG would in particular provide the IPSASB with feedback from the users of their standards, and other technical advice, for example assisting the IPSASB's in establishing its work program or preparing its consultation papers. Seven respondents (16%) approved this proposition, and noted that governments and other users of the standards should be its primary members.

Other specific issues raised by respondents included:

- Five respondents stressed the need to look beyond governance issues to improve the perceived legitimacy and adoption of IPSAS. Two respondents underlined that the scope of the IPSASB's mandate should be reviewed to place greater emphasis on its core mandate of preparing accounting standards.<sup>5</sup> One respondent noted that the process for developing the standards should be made more resilient. One respondent suggested that the new body should take stock of concerns expressed on the lack of representativeness of the IPSASB members. Another respondent stressed the need for greater involvement of the preparers of the financial statements in the standard setting process ;
- Two respondents questioned the usefulness of accruals accounting standards for the public sector, one of them stressing the importance of the single IPSAS currently dealing with cash accounting ; and

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<sup>5</sup> As opposed to the promulgation of guidance on wider aspects of fiscal disclosure such as reporting on non-financial performance and fiscal sustainability.

- One respondent noted that the future governance body should oversee the communication of the IPSASB, e.g., control the figures communicated to the public on the number of countries having adopted IPSASs.

## APPENDIX: LIST OF RESPONDENTS

The following list includes all respondents, organized by country.

	Respondent	Country	Type of Respondent
<b>1</b>	ACT Government - Chief Minister and Treasury	Australia	Ministry of Finance/ Treasury
<b>2</b>	Australian Accounting Standards Board	Australia	Standard Setter
<b>3</b>	Australian Financial Reporting Council	Australia	Other
<b>4</b>	CPA Australia	Australia	Professional Association
<b>5</b>	Institute of Chartered Accountants Australia	Australia	Professional Association
<b>6</b>	StaDt Wien	Austria	Ministry of Finance/ Treasury
<b>7</b>	Denise Silva Ferreira Juvenal	Brazil	Individual
<b>8</b>	Treasury Board of Canada Secretariat	Canada	Ministry of Finance/ Treasury
<b>9</b>	Chinese Institute of Certified Public Accountants	China	Professional Association
<b>10</b>	National Audit Office	Finland	National Audit Office
<b>11</b>	Compagnie Nationale Commissaires aux Comptes (CNCC)	France	Professional Association
<b>12</b>	Conseil de normalisation des comptes publics (CNOCP)	France	Standard Setter
<b>13</b>	Cour des Comptes	France	Supreme Audit Institution
<b>14</b>	Institut der Wirtschaftsprüfer (Institute of Public Auditors, Germany)	Germany	Professional Association
<b>15</b>	Japanese Institute of Certified Public Accountants	Japan	Professional Association
<b>16</b>	Treasury, Republic of Latvia	Latvia	Ministry of Finance/ Treasury
<b>17</b>	National Audit Office (NAO)	Malta	Supreme Audit Institution
<b>18</b>	Asociacion Interamericana de Contabilidad / Interamerican Accounting Association	N/A	Professional Association
<b>19</b>	Association of Chartered Certified Accountants (ACCA)	N/A	Professional Association
<b>20</b>	Chartered Institute of Management Accountants (CIMA)	N/A	Professional Association
<b>21</b>	Deloitte	N/A	Firm of Auditors or Accountants

<b>22</b>	Ernst & Young Global Limited	N/A	Firm of Auditors or Accountants
<b>23</b>	European Court of Auditors	N/A	Supreme Audit Institution
<b>24</b>	Federation of European Accountants	N/A	Professional Association
<b>25</b>	Grant Thornton International Ltd.	N/A	Firm of Auditors or Accountants
<b>26</b>	IFRS Foundation	N/A	Standard Setter
<b>27</b>	International Consortium on Governmental Financial Management (ICGFM)	N/A	Professional Association
<b>28</b>	International Federation of Accountants (IFAC)	N/A	Professional Association
<b>29</b>	International Public Sector Accounting Standards Board (IPSASB)	N/A	Standard Setter
<b>30</b>	KPMG IFRG Limited	N/A	Firm of Auditors or Accountants
<b>31</b>	Pricewaterhouse Coopers International Limited	N/A	Firm of Auditors or Accountants
<b>32</b>	Public interest Oversight Board (PIOB)	N/A	Other
<b>33</b>	The Chartered Institute of Public Finance & Accountancy (CIPFA)	N/A	Professional Association
<b>34</b>	United Nations System (Task Force on Accounting Standards)	N/A	Other
<b>35</b>	Controller and Auditor General, New Zealand	New Zealand	Supreme Audit Institution
<b>36</b>	External Reporting Board, New Zealand	New Zealand	Standard Setter
<b>37</b>	Treasury, New Zealand	New Zealand	Ministry of Finance/ Treasury
<b>38</b>	Association of National Accountants of Nigeria (ANAN)	Nigeria	Professional Association
<b>39</b>	Swedish National Audit Office	Sweden	Supreme Audit Institution
<b>40</b>	Swiss Public Sector Financial Reporting Advisory Committee (SRS)	Switzerland	Ministry of Finance/ Treasury
<b>41</b>	Institute of Chartered Accountants in England and Wales (ICAEW)	UK	Professional Association
<b>42</b>	Institute of Chartered Accountants of Scotland (ICAS)	UK	Professional Association
<b>43</b>	European Commission	N/A	Other