

The International Public Sector Accounting  
Standards Board Governance Review Group

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

CIPFA's response

6 May 2014

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

6 May 2014

The Chairs

The International Public Sector Accounting Standards Board Review Group  
c/o Organization for Economic Co-operation and Development  
2 rue André Pascal  
75116 Paris  
France

Dear Review Group Members

Globally, CIPFA is the only professional accountancy body which specialises exclusively in the public services, and as such has a particular interest in promoting the improvement of public sector financial management and governance. We see adoption of International Public Sector Accounting Standards (IPSASs) as one of the essential components of strong public financial management. We therefore welcome this consultation.

In the wake of the sovereign debt crisis, CIPFA is calling for action to make high quality public financial management the norm in governments and public sector organisations throughout the world. In our prospectus *Fixing The Foundations* (Attachment 1), we called for a step change in public financial management. Building on this initiative, in November 2013 we launched *PFM: Taking Responsibility* (Attachment 2), promoting further collaboration between professional accountancy bodies to ensure governments around the world have the appropriate guidance and financial skills for reform, and to support their progress to sound budgetary and accounting systems. We have also set out our thinking on the essential elements required for strong public financial management at all levels of the public sector in our publication *Public Financial Management: a Whole System Approach* (Attachment 3).

High-quality, robust and effective accrual-based financial reporting systems, ideally based on IPSASs, are integral to enhancing accountability and transparency in government financial reporting. We see the credibility of the standard setting process, including in particular its monitoring and oversight as critical in encouraging widespread adoption of accrual-based reporting. As the adoption of IPSASs becomes more widespread, so governance of the International Public Sector Accounting Standards Board (IPSASB) will come under ever greater scrutiny. It is therefore essential that it is seen as world-class. We therefore support efforts to reform the existing arrangements.

In principle, CIPFA thinks that responsibility for public sector standard setting should lie with an independent international pan-sectoral body setting standards for the public, private and not for profit sectors. However, given the significant challenges involved, CIPFA thinks that the option of putting in place a separate monitoring and oversight Board for the IPSASB, while it remains under the auspices of IFAC represents the only viable option in the immediate future. CIPFA thinks this meets the characteristics for



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strong oversight and governance of the IPSASB, and has the merits of being capable of relatively quick implementation, while maintaining the funding currently available through IFAC.

We look forward to the Review Group's final report and recommendations and to its continued support in the implementation of the recommendations.

A handwritten signature in black ink that reads "Rob Whiteman". The signature is written in a cursive, slightly stylized font.

Rob Whiteman  
**Chief Executive**

<b>Question 1:</b> Do you agree that there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:
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. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?
d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.

For the reasons discussed in our covering letter, CIPFA agrees that there is a need to strengthen the monitoring and oversight of the IPSASB. We consider and comment on each of the options proposed in turn below, before coming to an overall conclusion on our preferred way forward.

#### **a) Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees**

In recent years, the International Accounting Standards Board (IASB) has been under considerable pressure in terms of demonstrating both its legitimacy and independence. These pressures would only increase if the IFRS Foundation took on monitoring and oversight of IPSASB given the different types of bodies involved, the differing needs of users and other stakeholders, as well as the increased potential for conflicts of interest. Option (a) would therefore necessitate substantial reform of the IFRS Foundation's institutional architecture as the consultation paper outlines. Considerable further work would also be required develop a firm proposition given the range of options encompassed by the IASB/IFAC MoU wording of '*a single governance body, or a single standard setter setting requirements for both the public and private sectors*'.

If a separate public sector board were to sit alongside the IASB, the composition of the IFRS Trustees would need to be rethought. Not only would it need to incorporate wider experience of the public sector, but the issue of addressing the interests of governments, while avoiding undue influence would need to be addressed. There would also be significant questions about how the structure could work in practice to ensure that an appropriate balance was brought to bear on both Boards' activities. In particular, 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. Funding is an important question in this context.

CIPFA therefore thinks that option (a) is not feasible in either the short or medium-terms. Notwithstanding the distance from, and the considerable challenges involved in implementing the independent international pan-sectoral standard setting body we believe is conceptually best in principle, CIPFA thinks that when the Foundation reviews its structure and effectiveness starting in 2015, it should nevertheless consider the implications of extending its remit to the public sector as a mechanism for beginning to explore the issues involved.

## **b) Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC**

Establishing a new monitoring and oversight board for the IPSASB, while it remains under the auspices of IFAC would have the following advantages:

- Providing credible sector-specific monitoring and oversight;
- Maintaining the current synergies of working within IFAC; and
- It could be put in place reasonably quickly without requiring significant constitutional and organisational changes to IFAC.

Although the consultation paper raises possible concerns about the perceived conflict of interest associated with IFAC's financial support to the IPSASB, we have never seen any evidence of this. Indeed, unlike other IFAC standard-setting boards which are setting standards for IFAC member body members themselves, it can be argued that the participation of the accountancy profession adds an element of independence from the principle users of our standards, the governments and international organizations.

While it does not move public sector standard setting towards the pan-sectoral approach we think is conceptually strongest in principle as we discuss under option (d), CIPFA thinks that option (b) meets the characteristics for strong oversight and governance of the IPSASB – accountability, independence, competence and credibility. In view of the urgent need to resolve the questions over IPSASB's monitoring and oversight, we believe it represents the only viable option in the immediate future.

## **c) Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies**

CIPFA thinks that this proposal with the IASB and the IPSASB under different governance and oversight models would have few advantages in practice compared to option (b) and deliver none of the benefits cited for option (a). It could also risk moving public sector standard setting further away from private and not for profit standard setting.

Option (c) seems certain in practice to involve substantially more cost than the other options given the loss of the synergies with other boards in both (a) and (b), while incurring in particular the likelihood of losing IFAC funding. Establishing a new structure is also likely to be time-consuming, and would disrupt the IPSASB standard setting process. Therefore we see no merit in pursuing it.

## **d) Another approach, including some combination or sequenced implementation of the above options**

Economic substance rather than legal form should drive financial reporting standards. CIPFA thinks that exchange transactions which occur across the public, private and not for profit sectors should be accounted for in the same way. The higher prevalence of non-exchange transactions is sometimes thought of a differentiator between financial reporting in the public and private sectors. However, since a transaction thought of as non-exchange, such as levying a tax, has an economic impact on other sectors too, CIPFA thinks that in order to account for both sides of the transaction on an objective basis, the standards need to be set at the same time. This is the approach adopted in the development of the framework for Government Finance Statistics (GFS).

The current approach to standard setting, where the standard set for the private sector is generally developed in advance of the public sector equivalent, does not allow issues to be considered from first principles rather than within the context of an existing standard. While IPSASB has processes for considering both IASB and GFS

pronouncements, this approach must inevitably be less strong conceptually than considering both aspects of the transaction at the same time, and then providing advice on sector specific aspects subsequently. CIPFA therefore concludes that, in principle, establishing an independent international pan-sectoral standard setting body would allow the highest quality financial reporting standards to be produced that would best serve the public interest.

Establishing a international pan-sectoral standard setting body would however pose significant challenges in order to achieve the necessary legitimacy and independence necessary to protect the public interest. As the sectors differ considerably in terms of the types of bodies they comprise, the needs of users and other stakeholders, as well as the potential conflicts of interest, addressing the challenges involved would require considerable work. For this reason, this can only be a long-term option.

### **CIPFA's overall conclusions**

We have concluded that, in principle, responsibility for public sector standard setting should lie with a independent pan-sectoral body setting standards for the public, private and not for profit sectors (our proposed option d). However, given the significant challenges involved, CIPFA thinks option (b) represents the only viable option in the immediate future. CIPFA thinks this option (b) meets the characteristics for strong oversight and governance of the IPSASB, and has the merits of being capable of relatively quick implementation, while maintaining the funding currently available through IFAC.

**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?

CIPFA generally agrees with the proposed remit of the IPSASB monitoring and oversight body, though as discussed above, we think the two functions can be combined in a single body. However we consider the following areas in the outline proposals in the consultation paper require development and / or refinement in order to maintain the strength and independence of the proposed arrangements:

- the role of the oversight body in 'establishing the standard-setting strategy' should focus on the processes involved in the development of IPSASB's standards work programme, rather than its content;
- particularly if the monitoring and oversight roles are combined, the members of the oversight body should oversee the conduct of the appointment of the members and chair of the IPSASB, rather than participating directly in their nomination and appointment; and
- what is envisaged by 'define the role and functions of the various stakeholders of the public sector standard setting process' is unclear.

The consultation paper rightly highlights the challenges around ensuring governments are involved in the standard setting process, while at the same time ensuring they cannot exert any undue influence. Given the number of governments potentially involved, and the fragmented nature of the coordinating groups in this area, we believe that the establishment and design of a Consultative Advisory Group will be critical if governments are to participate in IPSASB's work. To be representative, as well as commanding support, a balance would be required between large and small governments, different levels of government, and IPSAS adopters and those planning this.

**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?

CIPFA generally agrees with the proposed overall composition of the IPSASB monitoring body.

It will be important to consider the detailed design and remit of the proposed oversight body to ensure that it meets the characteristics outlined in the consultation paper of accountability, independence, competence and credibility. In particular the balance and weighting between the various interests within the monitoring body between primary and secondary resource providers, as well as between the national monitoring bodies and international standard-setting institutions will be critical to its operation. Keeping it to a manageable size will also be important.

The skills of the members of the oversight body will be critical to its success. Members of the oversight body would not however need to be technical specialists as they will provide oversight of due process only, rather than being involved in the standard setting process itself.

**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?

CIPFA generally agrees with the proposed composition of the oversight body.

We believe that proper application of IPSASB's 'rules of the road' for developing guidance based on IASB documents, and its more recently adopted process for considering Government Finance Statistics (GFS) during the development of IPSASs, are essential. We therefore believe that the oversight body needs to include individuals with an understanding of IFRS and GFS to ensure that IPSASB gives due consideration to these frameworks, and IPSASs do not diverge unnecessarily.

**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.

The long term funding challenges need to be addressed convincingly for any of the potential options for international public sector standard setting to succeed. For example, we do not agree that the costs of taking-on IPSASB oversight would be only 'incremental' (page 16) to the existing costs of the IFRS Foundation. Indeed, we believe that a significant increase in IPSASB funding is likely to be necessary, not only in respect of governance and oversight, but to ensure that the board can operate as effectively as possible, and that its technical work and its due process are always of the rigour required for an international standard setter. We therefore see the continued involvement of the IMF, World Bank and other major international organisations in this process as essential, and in view of the significance of the public sector in the capital markets, believe that IOSCO and the FSB need to be more actively involved than hitherto. Such an approach would allow the funding base to be widened.