AGENDA PAPER

IFRS Advisory Council Meeting

LONDON	24–25 February 2014	**Agenda ref 3**
TOPIC	International Public Sector Accounting Standards Board (IPSASB) Governance Review	
PRESENTERS	Yael Almog/David Loweth	
CONTACTS	yalmog@ifrs.org and dloweth@ifrs.org	

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Introduction

1. The purpose of this paper is to seek the views of the Advisory Council on the proposals set out in the public consultation document issued on 23 January 2014 by the Organisation for Economic Co-operation and Development (OECD) on a review of governance of the International Public Sector Accounting Standards Board (IPSASB), which is being undertaken by an IPSASB Governance Review Group. The Review Group's consultation document is attached at Agenda Paper 3A. Jon Blondal, Head of the OECD's Budgeting and Public Expenditure Division, will attend and participate in the session.

2. The consultation document has implications for the IFRS Foundation, because one of the options put forward for governance of the IPSASB (Option 1, as noted in paragraph 13 below) is that the IFRS Foundation and the Monitoring Board should extend the scope of their activities to encompass the IPSASB. The first part of this paper sets out the background to IPSASB and its governance, together with a summary of the Foundation's previous consideration of the governance and oversight of public sector accounting standard-setting. The particular issues on which we would welcome input from Council members in relation to this option are set out in paragraph 21 onwards of this paper. In addition, the views of Advisory Council members on more general issues relating to the consultation document would also be welcome (paragraph 36 onwards).

3. The closing date for comments on the consultation document is 30 April. The staff plan is to bring a draft of the Foundation's response for discussion and approval by the Trustees at their April 2014 meeting.

Background

IPSASB: general

4. As explained in the consultation document (Section I), the IPSASB's origins go back to 1986, when the International Federation of Accountants (IFAC), the worldwide organisation for the accountancy profession, established a Public Sector Committee (PSC), with a broad mandate to develop programmes for the improvement of public sector financial management and accountability. In 1996, the PSC launched a *Standards Program* and changed its role into that of an international accounting standard-setter for the public sector.

5. Following an externally chaired review of the PSC's governance, role and organisation (the 'Likierman review'[1]), the PSC was 'relaunched' as the IPSASB in 2004, with revised terms of reference to reflect that the mandate of IPSASB would in future focus on developing and issuing International Public Sector Accounting Standards (IPSASs). At present, IPSASB comprises 18 volunteer members from around the world with representatives from Ministries of Finance, government audit institutions, private accounting practices and public members. Representatives of organisations that have a strong interest in public sector financial reporting, such as the OECD, the International Monetary Fund (IMF), the World Bank and the European Commission, also participate in IPSASB meetings as observers.

6. Since the original launch of the *Standards Program*, the IPSASB has issued 32 IPSASs, the majority of which are converged with International Financial Reporting Standards (IFRS) by adapting them to the public sector context, in line with guidelines developed by IPSASB[2]. IPSASB has also developed a number of public sector-specific standards[3]. However, as the consultation document notes, the adoption of IPSASs by national governments remains low, with perceived shortcomings in governance and oversight having acted as an impediment to their adoption and implementation.

---

[1] *Report of the Externally Chaired Review on the Governance, Role and Organisation of the International Federation of Accountants Public Sector Committee* (June 2004), chaired by Sir Andrew Likierman, the then Head of the UK Government Accountancy Service.

[2] IPSASB (October 2008) *Process for Reviewing and Modifying IASB Documents.* Available at: http://www.ifac.org/sites/default/files/downloads/IPSASB_Process_Final_version_Oct_08.pdf.

[3] IPSAS 21 *Impairment of Non-cash-generating Assets;* IPSAS 22, *Disclosure of Information About the General Government Sector*; IPSAS 23, *Revenues from Non-Exchange Transactions*; IPSAS 24, *Presentation of Budget Information in Financial Statements*; and IPSAS 32, *Service Concession Arrangements: Grantor*.

7. Those concerns have featured in the consideration made by the European Commission (EC) as to the suitability of IPSASs for use in the European Union (EU) (an extract from the EC's March 2013 report is at Appendix A). An EC staff report at that time noted that: "Many stakeholders perceive these interests as inadequate to safeguard the public interest and unresponsive to the independence of the standard-setting process"[4].

IPSASB: governance

8. The governance of IPSASB (and before it the PSC) has been an issue for some years. The Likierman review in 2004, while concluding that the long-term objective should be for public sector standards to converge with those of the private sector where appropriate, concluded that, in the short term, the IFAC Board and the PSC should "consider as an immediate priority a modification to the current governance arrangements". The review Panel recommended that the PSC should be brought within the scope of the Public Interest Oversight Board (PIOB)[5]. However, the IPSASB was excluded from the scope of the PIOB's oversight when the PIOB was established in 2005 (the focus of the establishment of the PIOB under the IFAC reform proposals in 2003 was on standard-setting activities related to the audits of listed companies).
9. In the absence of public interest oversight, IFAC and IPSASB have introduced improvements to its governance, including (i) the process for nominating IPSASB members; (ii) undertaking a public consultation on its forward work programme; and (iii) following a structured and transparent due process in the development of IPSASs (see Section III of the consultation document).
10. That said, the issue of IPSASB governance has resurfaced from time to time in subsequent years, as highlighted in Appendix B of the consultation document. In February 2013, the Monitoring Group (MG)[6], which monitors the activities of the PIOB, held a round table on the governance of public sector accounting standard-setting, with a particular focus on IPSASB. The MG's conclusions following that round table[7] were that its composition, as well as that of the PIOB, was not best suited for IPSASB governance. As the consultation document notes, taking on oversight arrangements for IPSASB would require significant changes to the composition and remit of both the MG and the PIOB,

---

[4] Commission Staff Working Document accompanying the document *Report from the Commission to the Council and the European Parliament: Towards implementing harmonised public sector accounting standards in Member States*.

[5] The PIOB was established in February 2005 to ensure that international auditing and assurance, ethics, and education standards for the accountancy profession, as developed by the relevant IFAC standard-setting bodies, are set in a transparent manner that reflects the public interest.

[6] The Monitoring Group is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. Its membership comprises the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank.

[7] Available at: http://www.iosco.org/monitoring_group/pdf/Summary-of-Roundtable-on-IPSASB-Governance.pdf?v=1.

which—in the MG's view—could risk the realisation of their original objective of improving audit-related standard-setting.

The IPSASB Governance Review Group

11. The IPSASB Governance Review Group was established in February 2013. The Group is chaired jointly by representatives of the IMF, the OECD and the World Bank, with the Financial Stability Board (FSB), the International Organization of Securities Commissions (IOSCO) and the International Organisation of Supreme Audit Institutions (INTOSAI) as members. Eurostat and IFAC are observers to the Review Group.

12. The consultation document outlines the Review Group's belief that there is a need to strengthen the governance of the IPSASB and sets out (in Section IV) its proposals for monitoring and oversight, including the remit and membership of the monitoring and oversight bodies, and options for establishing those bodies.

13. The consultation document sets out three options:

    (1) extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB;

    (2) establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC; and

    (3) re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies.

14. Because the MG has declined to take on the oversight of IPSASB, as referred to in paragraph 10 above, the Review Group has excluded such an option from the consultation document. The Review Group also considered, but dismissed, an option as to whether a standard-setting board comprising official bodies (namely, national standard-setters for the public sector), instead of IPSASB, on the grounds 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 such standards.

15. A gap in the paper, as we see it from an initial reading, is that there is no specific mention of the potential role in monitoring and oversight of the relevant international treaty-based organisations themselves, ie the IMF, the OECD and the World Bank (with only a general reference to 'international institutions' being made in the proposed composition of the monitoring body).

Developments in the EU

16. It is interesting to note that the consultation document makes no mention of relevant developments in the EU. Following the EU's consideration of the suitability of IPSASs for use in the EU referred to in paragraph 7 above, the EC (Eurostat) is proposing that the EU should instead move towards the development of European Public Sector Accounting Standards (EPSAS). IPSASs would represent a starting reference for the development of EPSAS. In November 2013, the EC issued a public consultation on possible future governance principles and structures for EPSAS[8], with a closing date for comments of 17 February. A summary of the proposed EPSAS governance framework is set out in Appendix B, placing the emphasis for both monitoring and oversight with the EU's official sector bodies. The EC document emphasises the need for co-ordination with IPSASB, "so that EPSAS and IPSAS do not drift unnecessarily from each other", but the proposals—if implemented—would have an impact on the potential take-up of IPSASs, not only in the EU, but elsewhere (if other regions take a similar approach).

The Foundation's previous consideration of governance and oversight of public sector standard-setting

17. The issue of whether the Foundation's objectives should include developing accounting standards for public sector and not-for-profit entities has been considered in previous reviews by the Trustees of the structure and effectiveness of the organisation:

    (1) The report of the review of the then IASC Foundation *Constitution* undertaken between 2003 and 2005 noted that: "While the Constitution would not prohibit the preparation of standards for not-for-profit and public sector entities, the Trustees believe that, because of other priorities and resource constraints, focusing on the public sector and not-for-profit entities is impractical at present. The Trustees plan to revisit the question of not-for-profit and public sector accounting in a few years' time"[9].

    (2) In the 2008-2010 review of the *Constitution*, the Trustees sought views on whether the IASB should extend its remit beyond its focus on financial reporting by private sector companies. In report the outcome of that review, the Trustees noted that the majority of respondents supported the organisation's continuing emphasis on providing standards for the world's capital markets, with a "small

[8] *Document accompanying the public consultation "Towards implementing European Public Sector Accounting Standards (EPSAS) for EU Member States – Public consultation on future EPSAS governance principles and structures",* accessible at: http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/epsas.

[9] IASC Foundation (July 2005) *Changes in the IASCF Constitution: Report of the IASC Foundation Trustees,* paragraph C8.

minority" saying that the Foundation's remit should be broadened "if not for the immediate term, for the long term"[10].

(3) The scope of the IASB's work was a feature of the Trustees' *Strategy Review 2011*. The majority of respondents to the consultation undertaken by the Trustees as part of the review supported the view that the primary focus should remain on standards for private sector entities. In the report of that review, published in February 2012, the Trustees concluded that: "In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (ie publicly traded entities, other public interest entities, SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date"[11]. In reaching that conclusion, the Trustees took into consideration the unsettled status of IFRS global adoption and the Foundation's limited resources. The report suggested that the next 'Constitution Review' would provide a timely opportunity to consider any expansion in scope (this is acknowledged in the Review Group's consultation document).

18. In the light of the above, the Foundation's current intention is to look again at the scope of our activities as part of the next review of the structure and effectiveness of the organisation, which is scheduled to start in 2015.

Current relationship with IPSASB

19. The IASB and IFAC have a Memorandum of Understanding (MoU), signed in November 2011[12], that sets out the relationship between the two bodies, in particular between the IASB and IPSASB, including:

(a) regular liaison meetings between the two boards;

(b) the IASB having observer status at IPSASB meetings; and

(c) the input provided by IASB staff to specific IPSASB technical projects.

20. The MoU includes a provision (in paragraph 17) that: "The IASB and IFAC also agree to discuss the future institutional and governance arrangements for standard setting for the

---

[10] IASC Foundation (May 2010) *Report of the IASC Foundation Trustees on Part 2 of their Constitution Review: Changes for Enhanced Public Accountability and Stakeholder Engagement*, paragraph 29.

[11] IFRS Foundation (February 2012) *Report of the Trustees' Strategy 2011- IFRSs as the Global Standards: Setting a Strategy for the Foundation's Second Decade*, paragraph A4.

[12] The MoU can be accessed at: http://www.ifrs.org/Use-around-the-world/Pages/IASB-IFAC-MOU.aspx.

public sector. There are a number of potential 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".

Implications for the IFRS Foundation: seeking the Council's views on Option 1

21. Option (1) outlined in paragraph 13 above (extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB) would have significant implications for the Foundation and the Monitoring Board. As noted in the Introduction to this paper, the staff will be preparing a paper on the issues and a draft of the Foundation's response for discussion and approval by the Trustees at their April 2014 meeting. We have yet to discuss the consultation document with the Monitoring Board. At this stage, we are seeking the views of Council members on the issues outlined in the consultation document and the implications for the IFRS Foundation of Option 1, in particular on the following areas:

The Foundation's current mission: has anything changed since the Strategy Review?

22. The Foundation's primary objective, as set out in the *Constitution* and reaffirmed in the *Strategy Review*, is to develop a single set of high quality globally accepted financial reporting standards that should serve investors, other participants in the world's capital markets and other users of financial information in making informed resource allocation and other economic decisions.
23. In the staff's view, the situation has not changed since the conclusion of the Trustees' *Strategy Review* in such a way that the Foundation should accelerate any consideration of expanding the scope of its mission in line with Option 1. The IASB's current agenda remains a work in progress, with a number of important convergence projects still to be completed, and the Council has been kept updated on the challenges and problems in achieving it.
24. In addition, the specific issue of the governance of IPSASB has been outstanding for around a decade. The consultation document also emphasises the need for improvements to be made in public sector financial reporting practices in the wake of the financial crisis, referring to (in Appendix B to the document) the call from the G20 in February 2013 for the IMF and the World Bank to look at the transparency and comparability of public

sector reporting[13]. Here again, the issues regarding public sector financial reporting in general have not changed since the *Strategy Review* report.

Question 1 to Council members
What are the views of Council members on what impact expanding the organisation's remit, as implied by Option 1, would have on the Foundation's ability to achieve its current mission?

Political challenges: legitimacy

25. One of the issues IPSASB has faced is in gaining legitimacy and authority for its standards. As the consultation document makes clear, that one of the reasons for national authorities not having adopted IPSASs. That said, in many jurisdictions, responsibility for public sector financial reporting rests with governments, which may not want to cede that responsibility, in particular to a private sector entity. As a private sector organisation with a public interest mission, the IFRS Foundation has faced similar challenges, but we have worked hard over the past years to achieve that legitimacy and authority, as witnessed by the number of jurisdictions that now require or permit the use of IFRS. Achieving legitimacy and authority for IPSASs would be, we believe, even more challenging, as would be the risks of politicisation of the standards. The challenge is made even more daunting because one major jurisdiction (the EU) is proposing to adopt a different approach, even if it envisages close co-ordination with the IPSASB.

Question 2 to Council members
What are the views of Advisory Council members on the challenges that the Foundation would face under Option 1 in securing the legitimacy and authority of IPSASs, and do Council members have any thoughts on how such challenges might be addressed?

[13] G20 Finance Ministers and Central Bank Governors Moscow Communiqué, paragraph 10, http://www.fin.gc.ca/n13/13-025-eng.asp.

Funding and operational challenges

26. The consultation document makes a brief number of references to funding. Interestingly, it does not refer to funding as coming within the remit of the proposed monitoring and oversight bodies. It is therefore not clear whether the responsibility for funding IPSASB would remain with IFAC, whichever option for monitoring and oversight is followed. Nevertheless, in our view, this is a fundamental issue.

27. In the option of extending the scope of the remit of the IFRS Foundation and the Monitoring Board to encompass IPSASB, the Review Group takes the view that costs of the IPSASB oversight would only be 'incremental' to those already being incurred. However, the Review Group acknowledges that the additional costs would need to be met, and that no immediate source of funding is available for those costs. Looking at the costs of the PIOB as a precedent, in 2012 its total expenses were €1.4 million[14] (around £1.17 million), which we see as being more than 'incremental'.

28. In our initial view, responsibility for funding should rest with the oversight and monitoring functions. But we recognise that under Option 1 this has significant implications for the Foundation, particularly if it took on responsibility for IPSASB to achieve synergies between standards for the private and public sectors (see paragraph 35 below). The consultation document notes that IPSASB's total budget in 2012 was US$2.3 million in 2012, with half the funding being provided by IFAC member bodies, around a quarter from the Government of Canada and CPA Canada, with the balance coming from smaller contributions (including from the Asian Development Bank, the New Zealand government and the World Bank). IPSASB has faced, and continues to face, significant challenges in raising funding and the current level of funding is very much at the low end of the scale for operating an effective board. As Advisory Council members are aware, the IFRS Foundation also faces significant ongoing challenges in securing stable and sustainable funding for its existing activities, and adding any responsibility for funding IPSASB activities (even if only for oversight) would add to those challenges. Without an assurance on the future funding of IPSASB itself being made, we think it is difficult to see how Option 1 can work effectively. In our view, this is an important point that the Foundation should emphasise in its response to the consultation document.

[14] PIOB Financial Statements 2012, available at: http://www.ipiob.org/media/files/attach/Financial_Statements_PIOB12.pdf.

Operational challenges

29. The consultation document is largely silent on the operational challenges that Option 1 would present. Even if only responsibility for governance and oversight came within the Foundation's remit, there would be implications for staffing, procedures and associated resources in servicing the expansion in responsibilities. If responsibility for IPSASB also came within the Foundation's remit, we believe that the operational implications would be significant, at both the operational and technical levels. For example, the Trustees would become responsible for the nomination and appointment of IPSASB members (who are currently part-time and whose costs are mostly borne by the members or their nominating organisations, with only the possibility of the travel expenses of the three public members of IPSASB being covered by IFAC). The staffing would also need to be re-examined: the IFRS Foundation currently employs around 70 technical staff; IPSASB has around 7.

Question 3 to Council members
Do Advisory Council members have any comments on the funding implications and operational challenges of Option 1 in the consultation document and on how they might be addressed?

Other implications and challenges

Governance: the Foundation's public accountability link to the Monitoring Board

30. The consultation document notes that a desirable characteristic of a standard-setting model is accountability to the public interest. We agree. The Monitoring Board provides that accountability link for the IFRS Foundation. It was established specifically to establish a formal relationship between capital markets authorities and the Foundation, in line with our capital markets mission as outlined above. The Review Group's proposals for the composition of a monitoring body to cover IPSASB activities are reproduced at Appendix D. The Review Group acknowledges that the composition in respect of IPSASB "is more complex". The Monitoring Board is currently working through the implementation of the recommendations of its review of the Foundation's governance in 2012, in particular in expanding its membership and working on its approach to assess current and prospective Monitoring Board members against its membership criteria. The implications and challenges of Option 1 for the Monitoring Board and its formal relationship with the Foundation would need to be considered carefully, including the issue of whether it would be feasible to have one Monitoring Board covering both the IASB and IPSASB, or whether should there be two parallel boards.

Governance: the Trustees' oversight

31. The consultation document proposes that the oversight body should comprise individuals who have both an appropriate technical competence in the accounting and financial reporting area, and recognised experience of the public sector. At present, the IFRS Foundation Trustees comprise 22 individuals who are selected for their understanding of, and sensitivity to, the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world's capital markets and by other users. The IFRS Foundation *Constitution* (Section 7) requires that the Trustees "shall comprise individuals that, as a group, provide an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and officials serving the public interest".
32. The staff are aware that there are a number of national precedents whereby one oversight body covers standard-setting in both private and public sectors (summary details of two such examples, the USA and Australia, are set out in Appendix C), but models vary around the world, with responsibility for public sector standard-setting and any oversight often remaining within the preserve of governments. The varying models are not dependent on whether or not the jurisdiction supports long-term convergence between standards for the private and public sector.
33. Option 1 would have implications for the composition of the current body of Trustees and how an appropriate balance might be struck so that the Trustees as a group would reflect a suitable experience of the public sector. Would there, for example, need to be a separate public sector subcommittee of the Trustees, or a parallel body of Trustees? Making any change to the Trustees would be a constitutional issue and, in the staff's view, the appropriate process to consider any such change would be as part of the next review of the IFRS Foundation, as referred to in paragraph 18 above, which is scheduled to start in 2015.

Technical challenges

34. The consultation document focuses on the governance and oversight of IPSASB, but in our view it is difficult to consider these issues in isolation from the question of taking over responsibility for IPSASB as a whole. Option 1 would have significant implications. The current liaison arrangements between the IASB and IPSASB are set out in paragraph 19, and the IASB-IFAC MoU also contains a provision that, in the medium to longer term, the two boards will mutually consult on projects in which both parties are likely to benefit from consideration of both private and public sector perspectives. The technical

staff are starting to liaise with their counterparts at IPSASB on their respective projects on emission trading schemes.

35. There is a view that combining responsibility for standard-setting for both the public and private sectors would bring with it advantages of synergy. But it would also bring challenges. Some questions that strike us are as follows. Would there, for example, continue to be two boards? If so, would IPSASB retain its independence to review and modify IFRS as at present? What role, if any, would the IASB play in IPSASB's consideration of public sector specific issues, such as accounting for social benefits? What would be the impact be of the need to consider public sector aspects of technical projects, for example in terms of timing?

Question 4 to Council members
Do Advisory Council members have any views or comments on the challenges and implications of Option 1 as set out in the section above?

General views on the consultation document

36. In addition, we would welcome the views of the Advisory Council on the consultation document in general. In particular we would welcome comments on a number of the views and assertions made in the consultation document, including those set out below.

37. The Review Group takes the view that national standard-setters for the public sector are often inherently conflicted on a standard-setting body by the fact that they are working under the auspices of Ministries of Finance that are subject to these standards themselves (consultation document, page 12, referred to in paragraph 14 above). However, the consultation document also notes (on page 5) that standards in certain areas (such as fiscal transparency) are set by the relevant international treaty-based organisation body (the IMF in the case of fiscal transparency), going on to state that the "legitimacy and authority of these standards derive from that granted to these organisations by the national governments who are their members, and who participate in their governance". In the staff's view, it is not clear that there is such an inherent conflict,

38. The consultation document focuses on concerns about the governance and oversight of IPSASB being among the reasons for national authorities not adopting IPSASs (consultation document, page ii), but as noted in the EC documents, there are other significant challenges and issues that prevent them from adopting IPSASs.

39. The staff view is that there is also a need to consider carefully the main implications of the EU's decision (referred to in paragraph 16 above) to develop EPSAS, rather than

adopt IPSASs, bearing in mind that the EU's decision in 2002 to adopt IFRS (as adopted in the EU) from 2005 provided a major catalyst to the adoption of IFRS around the globe.

Question 5 to Council members
Do Advisory Council members have any other views or comments on the proposals that they think should be brought to the Trustees' attention?

Appendix A

Extract from European Commission report of 6 March 2013 *'Towards implementing harmonised public sector accounting standards in Member States'*[15]

The overall conclusion is twofold. On the one hand, it seems clear that IPSAS cannot easily be implemented in EU Member States as it stands currently. On the other hand, the IPSAS standards represent an indisputably ideal reference for potential EU harmonised public sector accounts. On the one hand, the following concerns will need to be addressed:

- Currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonisation in practice.
- At its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, and does not take sufficient account of the specific needs, characteristics and interests of public-sector reporting. A major issue is the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU.
- At present, IPSAS can also be regarded as insufficiently stable, because it is expected that some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework, which is expected in 2014.
- At present, the governance of IPSAS suffers from insufficient participation from EU public-sector accounting authorities. During 2012, the governance framework of IPSAS was being reviewed to address issues of concern to stakeholders. Any reform should ensure that the independence of the standard-setting process is strengthened, while public sector-specific needs are effectively addressed. I n addition, the IPSAS Board currently seems to have insufficient resources to ensure that it can meet, with the necessary speed and flexibility, the demand for new standards and guidance on emerging issues in the evolving fiscal climate, particularly in the wake of the crisis.

On the other hand, most stakeholders agree that IPSAS would be suitable as a reference framework for the future development of a set of European Public Sector Accounting Standards.

---

[15] Report of the Commission to the Council and the European Parliament *Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSASs for the Member States*, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0114:FIN:EN:PDF.

Appendix B

Summary of the Envisaged EPSAS governance structure to be established in the EU

Monitoring function

The EC public consultation document notes that, following the normal institutional organisation within the EU, the EPSAS governance would be subject to oversight by the EC itself, as well as by the European Council, the European Parliament and the European Court of Auditors.

Oversight function

The proposal is for the establishment of an **EPSAS Governance Advisory Board (EPSAS GAB)**, which would be entrusted with specific oversight tasks. For example:

- provides an annual report to the European Parliament and the Council on EPSAS standard-setting procedure as regards the implementation of the key principles and process;
- provides advice on appropriate measures to facilitate the implementation of the key principles and due process;
- provides advice on how to communicate the standards to users and preparers;
- provides advice to the EPSAS Committee on the work programme; and
- the EPSAS GAB chair may also participate in the EPSAS Committee as an observer.

The EPSAS GAB Chair could be selected by the Council, after consulting the EC, and approved by the European Parliament. The members of the Board would act independently and be selected from among experts possessing outstanding competence in the field of public sector accounting standard-setting, would perform their duties in their personal capacity, and would be selected to provide a range of complementary skills and experience. After consulting the Commission, the European Parliament and the Council could each appoint the same number of members of the Board.

Standard-setting function

It is envisaged that an **EPSAS Committee** would be the central element of EPSAS standard-setting. The Committee, to be chaired by the EC, would be composed of high level representatives from the EU Member States. A limited number of other EPSAS stakeholders may also be invited to participate as observers.

The proposals also include the creation of an **EPSAS Standards Working Group**, which would report to the EPSAS Committee. Chaired by the EC, the Group would comprise technical experts from public sector standard-setters and government accounting authorities, in order to support technical development and drafting work. The members would be nominated by Member States.

A limited number of other EPSAS stakeholders would also be invited to participate as observers. At a later stage, a second Working Group—the **EPSAS Interpretation Working Group**, to work in parallel with the EPSAS Standards Working Group—could be established to support the decision-making process and help the EPSAS experts within the Commission to resolve interpretation requests in an authoritative manner.

Below the level of the Working Groups, and reporting to them, detailed technical preparatory work would be carried out by ad hoc theme-based **EPSAS Task Forces**, where necessary. The members of the task forces would be volunteers from the relevant administrations of the Member States. Additional participation from other EPSAS stakeholders could be decided upon on a case-by-case basis by the working group which established the task force.

Consultative function

The proposals envisage the creation of an **EPSAS Technical Advisory Group**, within which there could be participation from a wide range of stakeholders including the IPSAS Board, government finance statisticians, supreme audit institutions, public and private accounting experts, academics and end users. This Group would enable stakeholders to discuss and debate EPSAS standards and interpretations, and thereby to provide advice to the two Working Groups.

Appendix C

Examples of national arrangements with shared oversight of accounting standard-setting for both the private and public sectors

Australia

The Financial Reporting Council (FRC) is the body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standard-setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. The FRC monitors and promotes the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB).

The FRC currently has 16 Members. The FRC has a Public Sector Committee, which as at 30 June 2013 comprised five FRC Members and one non-FRC member (from the New South Wales Treasury).

The Australian Government, through the Treasury, provides funding for the purposes of the FRC, and this expenditure if included in the Treasury's annual financial statements. Funding for the AASB and AUASB is reported in the separate reports of each boar. The majority of their funding comes through an appropriation from the Government.

USA

In the USA, the Financial Accounting Foundation (FAF) is responsible for the oversight, administration and finances of two standard-setting boards: the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), whose remits cover public and private companies, not-for-profit organisations, and state and local governments. Each board has an advisory council: the Financial Accounting Standards Advisory Council (FASAC) and the Governmental Accounting Standards Advisory Council (GASAC). The FAF is not responsible for US federal government financial reporting, the standards for which are developed by the Federal Accounting Standards Advisory Board (FASAB).

The FAF currently has 20 Trustees, three of whom are listed as having state or local government experience.

Funding for the FAF comes from three main sources: (a) subscriptions and publications; (b) accounting support fees for the FASB; and (c) accounting support fees for the GASB. On (b), the Sarbanes-Oxley Act provides for funding of FASB's recoverable expenses through accounting support fees assessed against, and collected from, issuers of securities. On (c), the Dodd-Frank Act provides for funding of GASB's recoverable expenses through an order from the Securities and Exchange Commission (SEC) instructing the Financial Industry Regulatory Authority (FINRA) to establish, assess and collect accounting support fees from its members.

Appendix D

Review Group's proposal for the composition of the IPSASB Monitoring body

For the accounting standard-setting activities of the private sector, securities regulators and regional and international public sector institutions represent the public interest, ie, 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 organisations representing the interests of Parliaments, supreme audit institutions, and citizens themselves;
- secondary resource providers and users of the financial information, including organisations 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 organisations and institutions may choose to be involved in the monitoring body as observers or by designating members acting ex officio.