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30 June 2011

Mr Ian Ball  
Chief Executive Officer  
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Dear Ian

I refer to the consultation paper issued by the International Federation of Accountants (IFAC) in March 2011 with the title 'Proposals for the Oversight of the International Public Sector Accounting Standards Board (IPSASB)'.

I am pleased to attach a submission by the Financial Reporting Council (FRC) to the paper. I would like to thank you for giving us the opportunity to comment on the proposals in the paper, and for extending your deadline allowing us to consult with all our Members on the submission.

My contact details are provided above should you have any questions about our submission or any other matters with which I could assist you.

Yours sincerely

SIGNED  
Lynn Wood  
FRC Chairman

# **Submission of the Australian Financial Reporting Council on the IFAC Consultation Paper 'Proposals for Oversight of the IPSASB'**

## **Summary of recommendations**

The recommendations in this submission may be summarised as follows:

- The establishment of a Public Sector Exclusive Oversight Body is the best long-term solution to improve the oversight of the IPSASB;
- However, the adoption of the Public Interest Oversight Body (PIOB) model can be supported for practical reasons as a short-term measure; and
- The paper should be expanded to include information on IFAC's vision for the longer-term arrangements for the IPSASB, including its future relationship with the International Accounting Standards Board (IASB).

## **Introduction**

The Australian Financial Reporting Council (FRC) supports IFAC in its objective to enhance oversight and governance of the IPSASB. Having an effective oversight and governance process is important to all standard-setting organisations, and the credibility of the IPSASB is substantially influenced by how potential stakeholders regard the governance arrangements, resourcing and due processes of the IPSASB.

Regardless of which of the two oversight models is chosen the FRC supports all the key IPSASB governance proposals, namely:

- an appropriate oversight arrangement;
- a full time chair;
- a consultative advisory group (CAG); and
- greater resourcing.

The FRC has some concerns as to whether the analysis and the options presented in the consultative paper are sufficient to address the fundamental challenges affecting the IPSASB. Detailed comments on this issue are included in the following text.

## Questions 1 and 2: Which Model and Characteristics

The FRC suggests that in the longer run the formal governance arrangements that are put in place for IPSASB should be consistent with those adopted by other leading standard-setters. This ultimately implies an oversight structure which is independent of the accounting profession as well as appropriately funded and professionally resourced. The design of those arrangements should take into account why those of other standard-setters exist and how they have developed.

The FRC considers that the proposals in the paper address the short to medium term position, but fail to address the appropriate longer term arrangements for the IPSASB. In the longer term the process for establishing public-sector accounting standards will need to remain relevant, and this may change the relationship between IPSASB, IFAC and other standard setters. For example, some stakeholders consider that this should be achieved through a merger with the IASB, or at the least through the formation of a similar independent body.

IFAC's views and vision on the appropriate longer term arrangements are not addressed in the current consultation paper. In particular, the relationship between IPSASB and the IASB is an important strategic consideration, which we acknowledge extends beyond issues of governance. The FRC considers that building the credibility of IPSASB will mean, at least in part, mapping out a satisfactory relationship path between IPSASB and the IASB.

We strongly encourage IFAC to include in the paper information for users, stakeholders and potential funders giving an indication of what IFAC considers are the progressive steps in the longer term process. It is currently a critical stage in the development of IPSASB, and the outcome of the current exercise will significantly shape its future direction. Keeping stakeholders informed and managing their expectations will be important to maintaining their engagement over the next 3 to 5 years.

The FRC does not consider that the consultative paper provides an adequate basis for assessing the alternative governance arrangements that could apply as they are not placed in the longer term strategic context, nor do they consider the lessons learned from the experiences of the IFRS Foundation. We strongly encourage IFAC to further develop the paper prior to the fuller next stage consultation to consider those experiences and to position the current proposals in the light of those experiences and the longer term strategic context.

The current version of the consultation paper focuses on costing and IFAC matters and does not include a clear vision for the future or provide the relevant comparisons and analysis needed to develop such a vision. The risk of this approach is that the changes to the IPSASB arrangements that are proposed and eventually approved may be perceived to be marginal improvements, whereas the same changes may be more positively embraced if seen in the context of a longer term vision for IPSASB.

### *Comments on the Two Models*

The FRC acknowledges the preference of IFAC for the Public Interest Oversight Body (PIOB) model and the reasons for this choice. Given the current situation in which IPSASB has no oversight body, and the realistically available funding, this approach has significant advantages. These include the fact that it builds on existing frameworks and that PIOB members are already familiar with standard-setting processes similar to those IPSASB uses. Above all this model is cost effective and administratively easier and faster to implement. It would also enable IPSASB's operations and processes to evolve in a manner which is consistent with IFAC's other standard-setting boards, and allow IFAC to focus on responding on oversight issues to one body.

This model also takes account of the view held by some stakeholders that IPSASB is insufficiently developed as a standard-setting body to move to an independent oversight model at this time. According to this view a number of significant milestones (capability, governance, membership and technical) remain to be met before the IPSASB would be ready to move to this model. These stakeholders also consider that seeking to establish such a model at too early a stage may consume goodwill, commitment and resources that would be better spent establishing the quality, credentials, viability and membership of IPSASB.

We note that there are a number of conceptual and practical considerations in relation to this model that would need to be resolved if it is to be implemented. These include ensuring that current PIOB members are willing to accept additional responsibilities, and that this role fits within the current scope and capability of the PIOB (historically the PIOB has focused on the quality of external audit). Another problem that comes to mind is that the PIOB's attention to the IPSASB may be limited given the scope of its current responsibilities. The PIOB is already responsible for overseeing a number of different standard-setters and committees, and with only two additional members with specific public sector interests being proposed to join the PIOB, it is unlikely that public sector issues will receive the attention they warrant.

The FRC therefore considers that two additional members with relevant expertise would represent the absolute minimum to ensure that the PIOB is adequately equipped to handle its proposed public sector responsibilities, and that it would be better to increase this number to three additional members. In addition, the composition and expertise of the Monitoring Group would have to be reviewed, adapted and increased as appropriate to match the PIOB's expanded responsibilities. It would also be important to review and clarify the respective roles of the PIOB, the Monitoring Group and IPSASB to ensure that that they are clear, consistent and free of unnecessary overlap or critical gaps.

While the FRC would not oppose a move to use the PIOB model as a relatively quick and convenient means to achieving an improvement in IPSASB's governance arrangements, as stated above we do not consider that this model represents a long-term solution to its challenges in this area. The FRC has a clear preference for Model 2 - establishment of a Public Sector Exclusive Oversight Body for the IPSASB - on the basis that this approach would maintain consistency and build on the framework and processes of other leading

accounting standard-setters, provide an oversight body each of whose members fully understands public sector issues, and therefore achieve greater credibility with stakeholders. In addition, this approach would ensure that any moves made at this stage would constitute a step in the direction of achieving the ultimate objective of a fully independent and appropriately resourced oversight body. An IPSASB specific governance arrangement is more likely to meet this requirement than one that is still an integral part of the IFAC framework.

If IFAC proceeds with the PIOB model, the FRC recommends that IFAC include in the paper a commitment to conducting a review in a couple of years (or once particular milestones have been achieved). Such an approach acknowledges the PIOB model as a stepping stone and provides a suitable opportunity, at a later date, to consider the broader questions of whether or not it is still appropriate for IPSASB to remain under the umbrella of IFAC and to continually reassess the relationship with the IASB.

### **Question 3: Consultative Group**

The FRC supports the formation of a Consultative Advisory Group (CAG).

With respect to the representatives on the CAG, we consider that they should come from a range of countries that is broader than the current IPSASB membership. In particular, the range should include countries at various stages of development, including countries with different financial cultures. It would also be useful to include international bodies such as the OECD, IMF, EU, UN etc., some of which currently have observer status, as in many ways these bodies are among the key users of government financial statements. Finally, a small number of others with an interest and expertise in public sector accounting issues such as academics and professionals from closely related disciplines could be considered.

We note that the CAG should be of a constrained size (drawing from the history of the IFRS Advisory Council of the IASB for lessons learned). The paper mentions 40 members, but in our view 25-30 members may be the maximum for effective operations.

We support the proposed scope of the CAG to provide advice on the IPSASB agenda, project timetable and priorities, technical advice on projects and advice on other matters of relevance to the activities of the IPSASB.

It may also be necessary to clearly define the respective roles of CAG and IPSASB to avoid overlap. In doing this it would be instructive to consider the changes in the IASB environment. The IASB is moving to a more dynamic, targeted consultation process through its extended outreach program. This raises questions, even for the IASB, about the roles of advisory groups. Once its role is refined, membership of the CAG may also need to be reconsidered.

## Question 4: Funding

The FRC notes that in order to become an international standard-setter of choice the IPSASB needs to achieve a number of benchmarks, including critical mass, adequate resourcing, strong independence and appropriate governance. In addition to mapping out a way forward for governance, the FRC agrees that the IPSASB urgently needs to address the issue of the volume and the nature of its funding.

Australia is making a substantial contribution to the work of the IPSASB, currently mainly through in-kind support from the Australian Accounting Standards Board (AASB). We are informed that the AASB is committed to continuing the work it is doing in support of the IPSASB.

We support a broadly-based funding model (including continued support from IFAC) and contributions from a wide range of countries and observer entities, rather than relying on the contributions of a select few. A broad-based approach will provide greater stability and sustainability in the longer term, facilitate the actual and perceived independence of the IPSASB, and reduce IPSASB's reliance on IFAC funding in the future should there be a change of organisational arrangements. One option to achieve this would be to leverage moral support from an umbrella international organisation, for example the G20, as a means to gain financial support from a wider range of countries. In addition, at least in the near term, IFAC funding should continue while IPSASB operates under its umbrella

A further means of increasing the resources available to the IPSASB would be to increase the level of support it obtains from the national standard setters (NSS). These entities are an important constituency of the IPSASB, but it currently suffers from having few NSS who actually set standards for the public sector. The IPSASB should encourage countries to realise the importance of NSS in furthering the work of IPSASB and leverage its own efforts more through NSS.

In the longer run we are not persuaded that the proposed levels of funding and the ambitions to have a full-time chair and a small number of additional staff (all of which are, without question, needed) are adequate to give the IPSASB the status to which it aspires. The FRC considers that the current funding of the IPSASB is seriously inadequate, which is illustrated by the fact that the IASB applies more resources to some single topics than are available in total to IPSASB.

Fundamentally the IPSASB must be capable of being contemporaneous in its activities with those of the IASB, otherwise it will face the prospect of double handling of debates on topics of common interest to both sectors and unnecessarily duplicating or replicating work already done. At the same time the IPSASB has to maintain its focus on issues that are important to the public sector. Achieving these objectives ultimately implies much greater levels of funding than those proposed in the consultation paper.

Following final decisions on the oversight and resourcing matters IFAC is currently considering, the FRC is willing to consider an appropriate course of action in relation to the establishment of a long-term funding agreement for the IPSASB, subject to the final decision of the Australian Government.

#### **Question 5: Additional Matters**

Governance and oversight are important but should not be the sole consideration when looking to the overall viability and relevance of IPSASB to stakeholders and potential users. Sound governance and oversight need to be matched with sectoral relevance and technical viability of IPSAS and strong growth in international acceptance/adoption of IPSAS – broad acceptance/adoption along with good standards and standard setting is critical. We encourage IFAC and IPSASB to continue to address all aspects of establishing IPSASB as a strong, relevant and credible standard-setter.