



Accounting Standards Review Board

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The Executive Director Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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Via email: jimsylph@ifac.org

Dear Jim

COMMENTS ON IFAC CONSULTATION PAPER: PROPOSALS FOR OVERSIGHT OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB)

Introduction

1. The New Zealand Accounting Standards Review Board (ASRB) is pleased to make this submission on the IFAC Consultation Paper on Proposals for Oversight of the International Public Sector Accounting Standards Board (IPSASB).
2. As you are aware the ASRB, and indeed the New Zealand constituency generally, has for some time had concerns about the governance and funding arrangements of the IPSASB. These, along with appropriate staff resourcing and the conceptual focus of the IPSASB for the future, have been key issues in our deliberations over the appropriate status of International Public Sector Accounting Standards (IPSAS) in New Zealand. We are therefore delighted to see progress towards the full release of the Consultation Paper. We regard it as a significant step in the process towards establishing independent oversight of the IPSASB. It is a clear and tangible indication that the matter is being considered and addressed by IFAC.
3. In our view independent oversight is necessary to protect the IPSASB from improper influence from specific stakeholders or funders. It is also important to further develop the credibility of IPSASB as a setter of high quality, conceptually coherent accounting standards.

Comments on the Proposals

4. Our comments on the specific matters on which comment was requested are provided in the attachment. At the more general level we make the following comments.
5. Regardless of the option eventually selected, the critical issue will be to obtain the support of key governments (in their capacity primarily as preparers) to the new oversight arrangements. This will no-doubt require significant engagement on IFAC's and IPSASB's part but we consider this essential to maintaining and enhancing the credibility of IPSASB and IPSAS.
6. Another critical factor will be to ensure that the oversight body contains sufficient persons with public sector expertise, and that that expertise is internationally recognised. Without that level of expertise and recognition, the arrangements are unlikely to be viewed as credible by governments. This is particularly so if the PIOB option is selected. We would regard two additional members as the absolute minimum necessary to achieve this – three would be better. We note that one individual may well contribute more than one dimension to the PIOB.



7. In our view if the PIOB option is taken forward it is essential that the composition of the Monitoring Group is also reconsidered. We acknowledge that IFAC is not able to address this unilaterally but if the PIOB option is to be pursued, then we urge that discussions encompass the membership of both the Monitoring Group and the PIOB.
8. We strongly support the establishment of a well functioning IPSASB Consultative Advisory Group (CAG). We see this as a very important part of the proposed new arrangements. Given the long standing involvement of New Zealand and Australia in public sector standard setting, and the ASRB's recent decision to give significantly greater weight to IPSAS in New Zealand, we would hope that the CAG would include a voice from our part of the world. However, we are also concerned that other aspects of related process are also reconsidered and that the CAG form just one part of the mechanisms by which IPSASB obtains feedback on its programme and work.
9. The ASRB recognises that there is a cost associated with improving the IPSASB oversight arrangements and that it is appropriate that those countries advocating for improvements "put their money where their mouth is". New Zealand is a small jurisdiction and the ASRB's resources are very limited compared to many of our overseas counterparts. Nevertheless, we are favourably disposed to a modest increase in our funding support for IPSASB, either in cash or kind. Further, we are willing to reconsider whether the funding we provide should continue to be tied to specific projects.

Content of Discussion Paper

10. We note that a key issue which the Consultation Paper does not address is the long-term view of IFAC and IPSASB on the relationship with the IASB and the possible independence of IPSASB from the professional accounting bodies. For those who have observed the development of the IASB over 40 years, and for those in Australasia who continue to desire that differences between standards for different sectors are minimised, a view on these issues is an essential starting point to the options discussed in the paper. We urge IFAC to explain its views on these matters in the longer term and its current proposals in the light thereof.

Conclusion

11. The ASRB commends IFAC and the IPSASB on the work that has gone into considering the oversight issue and developing the Consultation Paper. We look forward to its development into a definitive proposal for wider consultation and its subsequent implementation in the not too distant future.

Yours sincerely

Kevin Simpkins
Chairman



IFAC CONSULTATION PAPER: PROPOSALS FOR OVERSIGHT OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB)

COMMENTS ON THE SPECIFIC MATTERS

1. Which model of oversight do you think is most appropriate?

In our covering letter we have encouraged IFAC and IPSASB to address issues about the longer term future of IPSASB in the Consultation Document. The comments which follow proceed on the basis that IFAC has concluded that progress needs to be made now within the broad parameters of the IFAC organisation itself.

The ASRB considers the critical success factor is to establish an oversight arrangement that is independent and effective, and perceived to be so. It is the achievement of this outcome, rather than the particular mechanism used to deliver it, which is the most important to us.

We consider that either of the two options identified in the Consultation Paper could be developed to achieve this outcome. Accordingly, the ASRB does not have a strong preference for one option over the other. We would support either option provided that the option selected was operationalised in a way that achieved the desired outcome.

Having said, that we see some practical advantages in Model 1: Oversight by the PIOB. In particular the PIOB is already undertaking oversight and so this option is in a sense ready-made and ready-to-go. Monitoring expertise, together with the procedural and physical infrastructure, are already established and operating.

Further, Model 1 is likely to be more cost effective both in the short-term (as indicated by the costings in the Consultation Paper) and over the medium-term. This is because the IPSASB oversight can be added to the existing infrastructure in a marginal cost manner in the short-term and the overheads spread over all oversight over the longer-term.

The ASRB therefore has a practical preference for the PIOB model over the exclusive oversight model. However, we would happily support Model 2 if that was selected. We note also that our view might change once IFAC views on the longer term matters such as the relationship of the IPSASB with the IASB and independence from the accounting profession have been discussed.

2. What characteristics of your preferred model do you think are critical to the model?

Regardless of the model selected, it is essential that there is an adequate level of public sector expertise and perspective represented on the oversight body. This is particularly important with the PIOB model if credibility is to be established. The ASRB regards two public sector persons as the absolute minimum required to achieve this and would prefer to see three public sector perspectives included in the PIOB, notwithstanding the cost implications. We consider this to be the critical characteristic of the PIOB model. We note that one individual may well contribute more than one perspective to the PIOB.

The ASRB does not consider exclusivity to be a critical characteristic. We consider that appropriate oversight can be undertaken by a body with a broad based membership and set of responsibilities (like the PIOB). It is not necessary to establish a body dedicated to solely overseeing the IPSASB to achieve this. Indeed, we see potential advantages in a non-exclusive approach as lessons learnt from overseeing the other Public Interest Activity Committees will be able to be applied to the oversight of the IPSASB, and vice versa. This could also be achieved in the long-run through a common oversight mechanism for the IASB and IPSASB.

3. With respect to the proposed formation of a Consultative Advisory Group (CAG), what do you think is the best composition of this group?

The ASRB strongly supports the establishment of an IPSASB CAG. We agree with the proposed objectives of the CAG outlined in the Consultation Paper but we think that the CAG will also have an important role to play in encouraging the adoption of IPSAS. The composition of the CAG should reflect both of these factors.

With this in mind we support the appointment of the current IPSASB observers to the CAG as they represent the major international institutions influential in this space. The appointment of some Ministries of Finance also has some logic given they are likely to be the preparers of financial reports based on IPSAS and therefore key stakeholders. It is likely that some national standard setters may also be influential IPSASB stakeholders in some jurisdictions and we hope that these would also be considered. The CAG should not be so large as to limit its usefulness.

As a jurisdiction that has been using accrual accounting in the public sector for some 20 years, we are also conscious that there is a vast range of experience between different jurisdictions. This ranges from the mature to the learning. We see advantages in this variation being reflected in the CAG to help ensure the IPSASB agenda accommodates the needs of different jurisdictions.

We have noted in our covering letter that we are concerned that other aspects of related process are also reconsidered and that the CAG form just one part of the mechanisms by which IPSASB obtains feedback on its programme and work.

4. Would your government/organisation consider establishing a long-term funding agreement for the IPSASB? If so under what conditions?

Yes. The ASRB recognises the importance of a relatively stable funding path to the work of a standard setting body. The ASRB would be prepared to agree a multi-year funding agreement (say for 3 years). We would also be prepared to discuss doing this in such a way that it is not tied to specific projects and available for the general funding of IPSASB and its oversight.

5. Are there any additional suggestions you have for strengthening the governance of IPSASB in order to increase the adoption of IPSASs?

The ASRB strongly supports the appointment of a full-time IPSASB Chairperson. In our observation the international credibility of IPSASB is positively correlated with the confidence the international community has in the Chair. Having greater certainty and continuity of appointment of the Chair would provide increased confidence about the future direction of IPSASs. It would also send a clear signal about the importance of the role and the level of commitment needed to successfully lead the Board. We recognise that there would be cost implications arising from a full-time Chair but consider that is inevitable at this stage of the IPSASB's evolution.

The ASRB also recognises the potential for problems, real or perceived, when the IPSASB is funded by governments, or government organisations. This is because governments would have several different potential relationships with the IPSASB: funder, preparer using the standards, local regulator etc. The potential for governments to leverage one relationship off another (particularly funder and preparer) is a risk to the IPSASB's credibility. We therefore wonder whether some sort of "firewall" mechanism could be established to separate funding from other relationships. A foundation or charitable trust arrangement might be one option.

As noted previously, the ASRB supports establishing independent and effective oversight arrangements for the IPSASB as a proactive measure to improve the credibility of the IPSASB. In designing these arrangements, we consider thought also needs to be given to the measures they may need to take reactively, in defending the credibility of the IPSASB. Accounting standard setting, done well, is unlikely to please all parties. The ASRB considers that the support of the IPSASB by an oversight board, in times of stress, is likely to be as valuable as oversight in times when stakeholders are not expressing governance or due-process concerns.