



EXTERNAL REPORTING BOARD

*Te Kāwai Ārahi Pūrongo Mōwaho*

4 April 2014

The International Public Sector Accounting Standards Board Governance Review Group  
Organisation for Economic Co-operation and Development  
2, rue André Pascal  
75775 PARIS Cedex 16  
France

Submitted via email: [IPSASB@oecd.org](mailto:IPSASB@oecd.org)

Dear Chairs of the Governance Review Group

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

The External Reporting Board (XRB) of New Zealand welcomes the release of the consultation paper and thanks the Governance Review Group for the opportunity to comment on the future governance of the IPSASB.

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand.

The XRB has recently established a new Accounting Standards Framework based on a multi-sector, multi-standards approach. For-profit entities in New Zealand have, since 2005-2007, been using standards that are effectively International Financial Reporting Standards (IFRS). Public benefit entities<sup>1</sup> now report using PBE Standards which are based on International Public Sector Accounting Standards (IPSAS). The issues surrounding the governance and oversight of IPSASB is therefore of great interest to the XRB. We think it will also be important for many other jurisdictions that have adopted, or are considering the adoption of IPSAS.

*Oversight and Monitoring of IPSASB*

We commend the IPSASB and International Federation of Accountants (IFAC) on the positive steps that they have undertaken in recent years to strengthen the membership nomination process for IPSASB and to consult on IPSASB's work programme. We also commend IPSASB for following a structured and transparent due process in the development of its standards, notwithstanding the absence of any current monitoring or oversight structure. We further commend IFAC for providing the considerable financial support to IPSASB while giving it a high degree of autonomy to carry out its work.

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<sup>1</sup> Public benefit entities comprise public sector entities and not-for-profit entities. Public sector public benefit entities will apply PBE Standards from 1 July 2014, and not-for-profit public benefit entities will apply these standards from 1 July 2015.

Notwithstanding the above, independent oversight of the IPSASB is critical to protect it from undue influence, or the appearance of undue influence, from specific stakeholders or funders. Formal oversight of IPSASB is also important and necessary for the IPSASB to be viewed as a credible standard-setter of high quality, conceptually coherent accounting standards. This may also encourage more widespread adoption of IPSASs.

In our previous comments<sup>2</sup> to the Monitoring Group and Public Interest Oversight Board (PIOB), we recommended that the IPSASB come under the oversight of the PIOB because we considered this to be the most cost-effective option. As this is no longer considered by the Review Group to be a viable option, we recommend that a separate monitoring and oversight body for IPSASB be set up but that it remains under the auspices of IFAC (that is, Option 2 as proposed in the consultation paper). We consider this to be the most viable option in the short term based on the practical considerations of speed, cost and availability of funding. This does not rule out moving to the more ideal position, in the long term, for the IPSASB to come under the scope and oversight of a completely independent body (such as the IFRS Foundation) to ensure a single governance body and a single standard setting structure for both the public and private sectors.

### *Funding*

We note that the bulk of funding for IPSASB is currently from IFAC and that this reflects a significant contribution from the accounting profession. We appreciate that in the short term, funding an oversight structure for IPSASB may be difficult without the continuing support from IFAC. This is another reason why we think Option 2 is preferable in the short term. Concerns about independence are mitigated by IPSASB's own due processes that are transparent and are intended to safeguard its independence.

Ideally, in the long term, the funding of IPSASB and any future monitoring or oversight boards should be independent of the profession, specific stakeholders or funders to ensure the credibility of the work of those bodies and to ensure that the funding base is sustainable in the long term. In this regard, we strongly recommend that the Review Group and IFAC address the issue of funding and actively seek alternative means of funding that is broad-based, diversified, sustainable and stable, and independent of government influence.

Our responses to the specific questions in the consultation paper are set out in the attached Appendix.

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<sup>2</sup> As set out in our submission on the *Public Consultation on the Governance of the Monitoring Group, the PIOB and the Standard Setting Boards and Compliance Advisory Panel Operating under the Auspices of IFAC and the PIOB Work Program 2012 and Beyond*, accessible on: [http://xrb.govt.nz/Site/Financial\\_Reporting\\_Strategy/Submissions\\_by\\_XRB.aspx](http://xrb.govt.nz/Site/Financial_Reporting_Strategy/Submissions_by_XRB.aspx)

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng ([laywee.ng@xrb.govt.nz](mailto:laywee.ng@xrb.govt.nz)) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G Mitchell'.

Graeme Mitchell  
Chairman  
External Reporting Board

## Appendix 1: Responses to Questions

### **Question 1:**

*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. 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?<sup>3</sup> If so, please describe.*

We agree that there is a need to strengthen the monitoring and oversight of the IPSASB. From a public interest perspective, having independent monitoring and oversight bodies is valuable and adds credibility to the whole standard-setting process.

We recommend, based on the practical considerations of speed, cost and availability of funding, that Option 2 be adopted, that is, a separate monitoring and oversight body for IPSASB be set up while it remains under the auspices of IFAC. We consider this to be the most practical short term option given that it will be difficult in the short term to change, in particular, funding models and set up a separate structure outside IFAC.

In the long-term, we would favour a fully independent standard-setting model completely outside the IFAC structure, not because we are concerned with any fundamental bias in the manner in which the standard-setting boards operate, but because it may help remove any perception that IPSASB lacks independence operating under IFAC.

We note that the IFRS Foundation is reluctant to take on the monitoring /oversight of IPSASB at the current time. In our view, Option 2 does not rule out, in the longer term, the ideal position (as set out under Option 1) for IPSASB to come under the scope and oversight of the IFRS Foundation or a similar body or structure to ensure a single governance body and standard setting structure for both the public and private sectors. We think this is the ideal long term goal because having separate monitoring and oversight boards for IPSASB may potentially result in greater and more entrenched differences in the concepts and standards when there are no good sector-specific reasons to differ.

In this regard, we consider that the Review Group and IFAC need to address IPSASB's long term funding structure. We strongly recommend that IFAC, the Review Group and the monitoring and oversight bodies (when set up) work towards finding alternative funding methods and sources that are broad-based, diversified, stable, sustainable and independent to support the ideal long term structure (see our further comment on funding under Question 5).

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<sup>3</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.

We are not in favour of Option 3 as we think that practically, it will not be possible to set it up in a timely fashion and finding funders that would not compromise independence for the structure is likely to be a major difficulty at this point in time.

**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?*

We agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A.

We consider that it is important that the roles of the monitoring and oversight body(ies) are made clear and separate from IPSASB (and from each other, if separate bodies are set up) to ensure that the independence of IPSASB as a standard setter is maintained. It is also important that the roles and responsibilities of monitoring and oversight body(ies) are clearly specified and communicated to stakeholders.

In addition, we strongly support the oversight body establishing a Consultative Advisory Group (CAG) to provide technical advice to IPSASB. It is important that the IPSASB has a well-functioning CAG that is well represented geographically and by knowledgeable public sector members to support its activities.

**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?*

We agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B.

We consider that the monitoring body's membership should have a good balance of stakeholders from international organisations that represent the public interest and the wider global interest. We consider it important that the monitoring body's membership include national monitoring bodies responsible for overseeing the work of standard setting for their domestic public sector institutions.

Consideration could be given to the establishment of one or two rotating membership positions (or observer positions) to allow greater representation and greater perspectives to be brought to the monitoring body. This may also provide other institutions with the opportunity to develop the necessary skills to be potential future members of the monitoring body. These could include organisations from emerging economies and/or regional standard-setting bodies.

Once the structure is agreed upon, we consider that the process for how the members are nominated and appointed, the maximum number of members, the criteria for the skills, the criteria for representation, the maximum term of appointment/reappointment (including for any rotating members) and funding should be clearly set out and made transparent.

**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?*

We agree with the proposed composition of the IPSASB oversight body and with the focus on those members having a public sector background as set out in section IV, paragraph B.

The proposed background of oversight body members as set out in section IV, paragraph B should ensure that those members would include members with the necessary skills or experience (or understanding, at a high level) of public sector specific accounting, assurance ethical and educational issues.

In our view, the functions of an oversight body would include, for example:

- Overseeing the processes for appointing members of the body subject to oversight to ensure that the appointment processes are open, transparent, independent and the members have the necessary skills for the job;
- Reviewing the outcomes of the body and the performance of its members to ensure that due process has been followed and the body and its members comply with their respective objectives/mandates and terms of reference;
- Reviewing and approving the processes for identifying projects for inclusion on the agenda of the body subject to oversight to ensure that the agenda is responsive to the public interest and due consideration is given to the views of stakeholders;
- Reviewing and approving the processes for developing standards and other documents to ensure, among other things, that the process is transparent, there is appropriate balancing of conflicting views and that there is independence in decision-making; and
- Reviewing and approving the accountability mechanisms to ensure that the body and its members are accountable to its oversight body and to its stakeholders.

An important aspect of oversight is to ensure that due process has been properly carried out. In this respect, matters like transparency of the due process and independence are critical. We think there is a need to include in the oversight body's mandate a reference to ensuring that the IPSAB carries out its work in an independent and transparent manner. While being responsive to public interest is important, to engender confidence and ensure that the standards are high quality, the IPSASB needs to be independent and be transparent in the way that it carries out its work.

Similar to the comment on the monitoring board, once the structure is agreed upon, we consider that the process for how the members are nominated and appointed, the maximum number of members, the criteria for the skills, the criteria for representation, the maximum term of appointment/reappointment (including for any rotating members) and funding should be clearly set out and made transparent.

**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.

We consider that the Review Group will need to address the critical issue of funding before presenting its final recommendations.

We recommend that the funding provide for an independent, full-time chair for the IPSASB. We consider that this is the appropriate time to consider this issue given that the term of the current chair of IPSASB is coming to an end in 2015.

We agree that it might not be realistic in the short-term to attempt to alter the funding structure of IPSASB in any substantial fashion. However, we consider that the Review Group, IFAC and the proposed monitoring and oversight bodies (when set up) need to address IPSASB's long term funding structure. We strongly recommend that IFAC, the Review Group and the proposed monitoring and oversight bodies (when set up) work towards finding alternative funding methods and sources for the ideal long term structure. Such funding needs to be more broad-based, diversified, stable and sustainable and ensure independence, especially from government influence. It should not rely merely on IFAC and/or one or two other contributors.

We would support the Review Group/IFAC/the proposed monitoring body putting in place a funding structure for the oversight body and for IPSASB that is similar to that of the IFRS Foundation funding. We agree with the principles underlying the funding structure of the IFRS Foundation as it is more likely to maintain the independence of the oversight body and the IPSASB and provide more sustainable funding in the long run.