



24 February 2020

Public Interest Committee (PIC)

Organisation for Economic Co-operation and Development (OECD)

2, rue André Pascal

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By email: PublicInterestCommittee@oecd.org

Dear PIC Members

Survey of IPSASB Oversight Arrangements

Introduction

The External Reporting Board (XRB) is pleased to have the opportunity to respond to the *Survey of IPSASB Oversight Arrangements*. The XRB is an independent Crown entity responsible for financial reporting strategy and developing and issuing accounting, and auditing and assurance standards in New Zealand.¹

The *Accounting Standards Framework* in New Zealand is based on a multi-sector, multi-standards approach. For-profit entities report in accordance with NZ IFRS based on IFRS® Standards issued by the International Accounting Standards Board (IASB). Public benefit entities (PBEs) apply PBE Standards based on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards (IPSASB). PBEs are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders.

Many PBEs have legislative requirements to prepare general purpose financial reports (GPFR) in accordance with standards issued by the XRB. For example, the consolidated financial statements of the Government of New Zealand, and the financial statements of local authorities and many other public sector entities are prepared in accordance with PBE Standards. In addition, many not-for-profit entities with legislative reporting requirements (such as registered charities) are required to apply PBE Standards.

Given our use of IPSAS in New Zealand, we strongly support the IPSASB's mission to serve the public interest by developing high-quality accounting standards (and other publications) and its overarching objective of strengthening Public Financial Management globally through increasing the adoption of accrual-based IPSAS.² We therefore support measures that enhance the governance and oversight of the IPSASB, including the work of the PIC, and any measures that will assist the IPSASB

¹ Information about the role, responsibilities and focus of the XRB is set out in [Appendix A](#).

² IPSASB Strategy and Work Plan 2019-2023.

as it delivers on this objective by (i) developing and maintaining IPSAS and (ii) raising awareness of IPSAS and the benefits of accrual adoption.

The XRB has a statutory obligation to consult with constituents before issuing standards. In order to contribute to the development of international standards that are appropriate for adoption in New Zealand the XRB actively participates in the IPSASB's due process consultations and contributes in other ways to the work of the IPSASB. The XRB also relies on the robustness of the IPSASB's due process to deliver high-quality standards.

In the XRB's view, the term 'high quality' has a number of aspects. It implies that standards are principles-based, lead to appropriate reporting of transactions and events, have been developed after due consideration of stakeholders' views and the costs and benefits associated with the requirements, and can be readily understood and implemented.

Key points

We have raised three key points in our responses to the survey questions.

- The importance of the PIC's activities being guided by its Terms of Reference.
- A call for the PIC's Terms of Reference to be expanded to encompass responsibility for developing a sustainable funding model for the IPSASB.
- The importance of taking the time required to develop high-quality standards.

We touch briefly on these points below and address them in more detail in our responses to the survey questions.

We agree that the activities of the PIC, as set out in its current Terms of Reference, are appropriate and encourage the PIC to focus on these activities. The PIC has the right (and obligation) to check that the IPSASB is acting in accordance with its processes and procedures, including its due process requirements, as it strives to maintain and develop high-quality standards and promote the adoption of accrual-based IPSAS.

However, in order to maintain its credibility as an independent oversight body, the PIC needs to guard against involvement (or the perception of involvement) in operational matters which remain the responsibility of the IPSASB or other bodies. Although we acknowledge the high level of interest in some projects and desire for completion of those projects, the IPSASB's paramount consideration must be the development of high-quality standards. In order to produce high-quality standards the IPSASB needs experienced, capable and contributing Board members.

We would support the PIC's Terms of Reference being expanded to encompass responsibility for the development of a sustainable funding model for the IPSASB and to explore other ways of supporting the IPSASB. We note that an increasing number of jurisdictions are expected to adopt IPSAS.³ In our view the IPSASB needs additional funding or other forms of support to deal with this increasing demand.

³ IFAC/CIPFA *International Public Sector Financial Accountability Index, 2018 Status Report*: "Within five years, it is projected that the number of governments reporting on accrual will rise from 25% to 65%."

In recent times we have heard the phrase 'speed to market' being used in relation to IPSASB projects and activities, with the implication that this is something that the IPSASB should aspire to or that the IPSASB needs to do better in this regard. Although we acknowledge the high level of interest from many jurisdictions, including New Zealand, in some projects and the desire for completion of those projects, the IPSASB's paramount consideration must be the development of high-quality standards.

The public interest is not necessarily served by the faster completion of projects. The IPSASB should issue standards only once it is satisfied that it has considered all relevant issues and has developed appropriate requirements. We recognise that international standard setting is difficult and at times there may be compromises to reach consensus. However, the IPSASB must always strive, and be seen to strive, to develop high-quality standards.

Concluding comments

Consistent with New Zealand's use of IPSAS in developing accounting standards for the public sector and some not-for-profit entities, we support the IPSASB's strategic objectives and activities. We also support the role of the PIC as an independent oversight body. We are broadly supportive of the current arrangements but have made some suggestions that we think could enhance the PIC's contribution to the public interest and more effectively support the work of the IPSASB.

Our response to the survey questions are set out in Appendix B to this letter.

If you have any queries or require clarification on any matters in this submission, please do not hesitate to contact me (P: +64 4 550 2048; E: April.Mackenzie@xrb.govt.nz).

Yours sincerely

A handwritten signature in black ink, appearing to read 'April Mackenzie', with a long horizontal line extending to the right.

April Mackenzie

Chief Executive

External Reporting Board

Appendix A

External Reporting Board's (XRB) role, responsibilities and focus

1. The XRB is an independent Crown entity responsible for financial reporting strategy and the development and issuance of accounting, and auditing and assurance standards in New Zealand. The XRB was originally established under section 22 of the Financial Reporting Act 1993, with continued existence under section 12 of the Financial Reporting Act 2013.
2. The XRB develops and issues accounting standards for the for-profit, not-for-profit and public sectors.
3. New Zealand legislation establishes **who** is required to report in accordance with standards issued by the XRB (for example, Companies Act 1993, Charities Act 2005, etc.). The XRB is responsible for the XRB accounting standards themselves which state **what** and **how** entities are required to report. The XRB does not have the mandate to establish who is required to report in accordance with standards it issues.
4. In developing and issuing its standards, the XRB focuses on the information needs of the primary users of general purpose financial reports (GPFRs).

Appendix B – Response to the survey questions

Question 1

How familiar are you with the Public Interest Committee, its mandate and activities?

Rating 4/5

New Zealand's strategy of using IPSAS as the basis for PBE Standards is mentioned in our cover letter. XRB staff, together with other key stakeholders in New Zealand, such as the Treasury and the Office of the Auditor-General, are closely involved in the activities of the IPSASB. We are of the view that confidence in the oversight and governance arrangements of the IPSASB is an important contributor to global acceptance of IPSAS and continued support of IPSAS as the most appropriate base for developing PBE Standards in New Zealand.

Although we are familiar with the PIC's mandate and take an active interest in the activities of the PIC, we have limited information as to how the PIC goes about performing its mission, its more detailed objectives and the outcomes of its activities. The minutes of the PIC's meetings are publicly available but they contain more information about the reports the PIC has received from the IPSASB and the IPSASB's Consultative Advisory Group (CAG), rather than information about the PIC's deliberations and actions.

We think that visibility of the PIC's activities would be improved if a PIC member attended each IPSASB meeting and formally reported to the IPSASB. Although the IPSASB Chair reports back to IPSASB members on his meetings with the PIC, we consider that there should be a formal line of communication from the PIC to IPSASB members and observers. This would lead to more transparency over the PIC's current and planned activities.

Question 2

Do you believe the activities and recommendations of the Public Interest Committee in the following areas are consistent with its mandate?

- (a) Development of the IPSASB strategy and work programme:**
- (b) The appointment process for members of IPSAS by IFAC:**
- (c) Due process for IPSASB standard setting:**

Question 2(a): Development of the IPSASB strategy and work programme

Rating 3/5

The PIC's Terms of Reference state that it will "review the IPSASB's reports on procedures and processes for formulating its strategy and work plan and developing individual accounting standards to ensure that the views of all relevant stakeholders are sought and given due consideration, and advise IPSASB members on any proposed changes."

The PIC's activities include monitoring the delivery of key project milestones and the process for identifying new projects for inclusion in the Work Plan.

We note the PIC has been active in ensuring appropriate due process has been followed by the IPSASB in developing its Strategy and Work Plan (namely through regional round table events to assess the projects of most urgency and importance for key constituents and other stakeholders).

We believe that the activities and recommendations of the PIC in relation to these matters are broadly consistent with its mandate.

However, we are concerned that the PIC has placed undue emphasis on the need to complete projects, as per the initial project milestones. Our concerns about this are outlined in our response to Question 3.

Question 2(b) The appointment process for members of IPSAS by IFAC

Rating 3/5

The PIC's Terms of Reference state that it will "review the IFAC Nominating Committee's reports on procedures and processes for nomination and appointment of the IPSASB members and advise the IFAC on any proposed changes."

The IFAC Nominating Committee makes recommendations to the IFAC Board, relevant public interest oversight authority, and IFAC Council, as appropriate, for approval of the composition of the independent standard-setting boards and IFAC Board and committees.

As stated in the 2021 call for nominations:

The Nominating Committee reviews the nominations to recommend the most suitable candidates for the available positions: those who are most likely to enhance the quality of the output of a particular board or committee. In evaluating candidates from what is typically a large pool of candidates, the Nominating Committee considers matters such as relevance of candidates' professional backgrounds, technical skills, past and present contributions to the accountancy profession at regional and international levels, and the ability to make a significant contribution to the matters and areas of emphasis reflected in the work plan of a particular board or committee when considered in combination with the mix of current members' backgrounds. Although the Nominating Committee also considers gender and regional balance, the most suitable candidate principle is the overriding objective for selection.

While we support IFAC's ongoing efforts to have an appropriate gender and geographical balance on its boards, we also agree with IFAC that the most suitable candidate principle must be the overriding objective for selection. The IPSASB is not a governance or management board. It is a standard-setting board which requires a high-level of technical accounting and standard-setting expertise. The IPSASB relies heavily on the contributions of its members to assist it in developing high-quality standards. Members must therefore be experienced, capable and active contributors. In order for members to be able to contribute effectively to the Board, they also need to have sufficient time and support to devote to the work of the IPSASB.

Recent PIC meeting minutes indicate that the PIC is conscious of this aspect of its Terms of Reference. In March 2019 the PIC recommended that the IPSASB continue its dialogue with regions and develop a strategy on how to attract and mentor suitable candidates for future membership.

The PIC's minutes indicate that the PIC has been looking at ways to support the development of potential candidates. We applaud these efforts. However, we also encourage the PIC not to lose sight of the focus on the most suitable candidate principle. As an oversight body the PIC has an interest in ensuring that IPSASB members contribute effectively to the work of the IPSASB.

Question 2(c) Due process for IPSASB standard setting

Rating 3/5

The PIC's Terms of Reference state that it will "review the IPSASB's reports on procedures and processes for formulating its strategy and work plan *and developing individual accounting standards* to ensure that the views of all relevant stakeholders are sought and given due consideration, and advise IPSASB members on any proposed changes." In particular, the PIC's activities include:

- Reviewing IPSASB documentation supporting the application of due process for all new or revised IPSAS.
- Reviewing IPSASB documentation supporting the application of due process followed to develop the strategy and work plan.
- Providing advice and comments on the appropriateness of the items on the IPSASB Work Plan and its broader strategy, from a completeness and a public interest perspective.
- Seeking regular updates on the implementation of the IPSASB's Strategy and Work Plan and how the public interest is considered through IPSASB activities.

We believe the activities and recommendations of the PIC in relation to these matters are consistent with its mandate. However, we think that the PIC should be more transparent about what it is doing and establish a formal line of communication back to the IPSASB.

Appropriate due process is fundamental to the development of high-quality standards. We therefore encourage the PIC to consider whether there has been appropriate due process throughout major projects, not just at the end. This may include reviewing the IPSASB's planned constituent engagement activities on documents issued for comment and providing feedback on whether the planned activities are appropriate.

We are aware that the PIC monitors some of the IPSASB's outreach (for example, in relation to developing the IPSASB's Strategy and Work Plan and raising awareness of IPSAS). However, we are not aware of how much attention the PIC gives to planned outreach on significant projects.

In reviewing the IPSASB's due process documentation we encourage the PIC to consider whether exposure drafts (and other consultation papers) are sufficiently clear and supported by sufficiently detailed explanations of how the IPSASB reached its decisions for constituents to understand the issues and provide informed feedback. The importance of this is underscored by the IPSASB's Due Process and Working Procedures (June 2016), paragraph 11.

In voting in favour of the release of an exposure draft, a member of the IPSASB is confirming that he or she is satisfied that the draft would form an acceptable international standard in the event that no comments were received on exposure that required the IPSASB to amend the proposals.

We encourage the PIC to monitor the IPSASB's adherence to this requirement.

Question 3

Do you believe the mandate of the Public Interest Committee is appropriate?

Rating 4/5

We agree that the PIC's mandate, as set out in its current Terms of Reference, is appropriate for an oversight body. The PIC has the right (and obligation) to check that the IPSASB is acting in accordance with its processes and procedures, including its due process requirements, as it strives to maintain and develop high-quality standards and promote the adoption of accrual-based IPSAS.

There may be some opportunities to clarify the PIC's mandate by outlining the PIC's view of the public interest and how the PIC's activities contribute to the public interest. This is discussed below under the heading 'public interest'.

We encourage the PIC to focus on the activities outlined in its Terms of Reference and to guard against involvement (or the perception of involvement) in operational matters which remain the responsibility of the IPSASB or other bodies. This is necessary to maintain the credibility of the PIC as an independent oversight body. There is one area where we are concerned that the PIC is overstepping its role, or may be perceived as doing so. This is discussed below under the heading 'speed to market'.

We think that the PIC's mandate should be extended to encompass developing a sustainable funding model for the IPSASB. This is discussed below under the heading 'funding'.

Public interest

Despite the difficulty of getting consensus on a precise definition of the public interest, we think that the PIC should be transparent about how it views the public interest and the matters (and activities) the PIC should consider in striving to promote the public interest. To open this discussion, we have outlined ways in which we think the public interest is upheld.

- There is a clear separation of duties between those who set the standards and those who oversee compliance with processes.
- The standard-setting Board is exempt from undue influence from any stakeholder group (including Government) and has a user-needs focus (i.e. to provide information to users for accountability and decision-making purposes).
- Standard setters have legitimacy through the way they operate (agenda consultations, due process, open meetings, etc).
- Standard setters have legitimacy through the quality of their standards.
- Board members on both the IPSASB and PIC have an appropriate mixture of technical and practical standard-setting expertise.
- Standard-setting boards are supported by appropriate and sustainable multi stakeholder funding – which ensure the Board has appropriate resources to support all necessary standard-setting activities to develop high-quality international standards that will promote IPSAS adoption by Governments and other public sector entities.
- The due process ensures that all relevant stakeholder views are considered.

Speed to market

In recent times we have heard the phrase 'speed to market' being used in relation to IPSASB projects and activities, with the implication that this is something that the IPSASB should aspire to or that the IPSASB needs to do better in this regard. Although we acknowledge the high level of interest from many jurisdictions, including New Zealand, in some projects and the desire for completion of those projects, the IPSASB's paramount consideration must be the development of high-quality standards.

As an oversight body we think it is appropriate for the PIC to have an interest in whether the IPSASB's resources are being used efficiently and effectively. However, the decisions as to whether the IPSASB has sufficiently considered the issues and come to agreement about proposals or requirements in standards, remain operational decisions for the IPSASB. Even in the case of standards which draw substantially on the work of the IASB, the IPSASB must consider GFS requirements and public sector specific issues.

If there are difficult issues and the IPSASB receives conflicting comments from constituents then, in order to meet its due process requirements, and to ensure that it continues to issue high-quality standards, it is necessary and important that the IPSASB take the time needed to understand those views and consider its options.

Standards derive their authority not just from external requirements to apply the standards, but through acceptance of the requirements by preparers and users of the financial information. High quality is an essential prerequisite for such acceptance and the credibility of international standards. The IPSASB strives to achieve its mission through two main activities (being to (i) develop and maintain IPSAS and (ii) raise awareness of IPSAS and the benefits of accrual adoption). The IPSASB's mission will be achieved only through the development of high-quality standards.

The public interest is not necessarily served by the faster completion of projects. The IPSASB should issue standards only once it is satisfied that it has considered all relevant issues and has developed appropriate requirements. We recognise that international standard setting is difficult and at times there may be compromises to reach consensus. However, the IPSASB must always strive, and be seen to strive, to develop high-quality standards.

An inappropriate focus on meeting milestones gives rise to significant risks, some of which we have noted below.

- Projects that are inappropriately rushed may actually take longer to complete. If a due process document is insufficiently developed, not well-drafted, or does not provide a clear rationale, respondents are more likely to raise major concerns and, in the case of an exposure draft, there is a higher risk that re-exposure in the form of another exposure draft will be required.
- Final standards should not be issued until the Board are satisfied that the requirements are appropriate, clearly expressed and internally consistent. If constituents have trouble understanding requirements this negatively affects the credibility of IPSAS and ultimately leads to a failure in the IPSASB meeting its objective of promoting the broader adoption of accrual-based IPSAS, and a failure by the PIC to promote the public interest. It also imposes costs on constituents (and possibly the IPSASB).

To achieve the PIC's overarching mission of *promoting public interest in standard-setting activities*, we encourage the PIC to consider whether proposed project milestones are realistic, based on the project's complexity, importance, relevance, potential for sensitive issues and scope for diverse views.

We also encourage the PIC to take an active role in monitoring the development of individual projects, ensuring appropriate staff resources are in place and that the processes for high-priority projects are operating in an efficient and effective manner. When individual projects take longer than expected we encourage the PIC to seek an understanding of why additional time has been required and how the IPSASB intends to proceed. Exploring the reason for delays may create opportunities to avoid delays in other projects. However, some delays may be unavoidable.

The issue of timeliness in standard setting has recently been considered by the IFRS Advisory Council and its observations may be of interest to the PIC. The Advisory Council addressed some key questions in respect of how the IFRS Foundation could balance the due process requirements and effective stakeholder engagement with perceptions around timeliness. Members provided varied advice. The common themes were as follows.

- Better communication is seen as the key to reducing the perception of timeliness issues.
- Quality trumps timeliness in standard setting.
- Timeliness is not necessarily seen as an issue in reality.
- There is, however, a need to both recognise and address the perception of a lack of timeliness.
- Flexibility (and nimbleness) of approach for different projects and different stakeholders may assist in reducing perceived timeliness issues.

We note that constituents also have the opportunity to comment directly to the IPSASB on the progress of projects via the periodic agenda consultation process.

Funding

We would support the PIC's Terms of Reference being expanded to encompass responsibility for the development of a sustainable funding model for the IPSASB and other ways of supporting the IPSASB. We note that an increasing number of jurisdictions are expected to adopt IPSAS.⁴ In our view the IPSASB needs additional funding or other forms of support to deal with this increased demand.

As the PIC knows, the IPSASB's output is constrained by the resources it has available. The volunteer Board meets only four times a year and, in comparison to other international standard-setting boards the IPSASB has fewer staff. New Zealand has made a point of acknowledging the need for the IPSASB to have reliable funding and the need for IPSASB members to be supported in their work.

It is important that the IPSASB be seen to be independent from its funders. This means that a body external to the IPSASB needs to assume responsibility for the funding of the IPSASB and that there needs to be a broader base of funders. We believe that the PIC is an appropriate body to assume this

⁴ IFAC/CIPFA *International Public Sector Financial Accountability Index, 2018 Status Report*: "Within five years, it is projected that the number of governments reporting on accrual will rise from 25% to 65%."

responsibility. Funds spent developing high-quality standards will have a direct impact on improving the quality of financial reporting and strengthening the public financial management (PFM) of governments. This sits directly alongside the PIC's responsibilities to promote the adoption of standards that promote the public interest.

Question 4

Do you believe the present composition of the Public Interest Committee is credible in providing effective oversight for IPSASB?

Rating 3/5

The PIC's Terms of Reference state that the Committee will be comprised of individuals with expertise in public sector or financial reporting, and professional engagement in organisations that have an interest in promoting high-quality and internationally comparable financial information. Since its inception, membership of the PIC has been largely limited to representatives from the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), the World Bank Group (WBG) and International Organisation for Supreme Audit Institutions (INTOSAI).

Although all of these organisations play an important role in promoting better reporting by governments and public sector entities and contribute to the adoption of accrual-based IPSAS, we encourage the PIC to look for opportunities to appoint a member with experience in setting public sector accounting standards. We believe that someone with such experience would enhance the effectiveness of the PIC's oversight. The PIC might also like to consider how to solicit broader user views (for example, credit rating agencies or taxpayers/investors in government debt).

One way this could be done is to establish one or two rotating membership positions (or observer positions). This suggestion would increase the pool of people with a good understanding of the role of the PIC and the work of the IPSASB.

Question 5

Do you believe it is important to have independent oversight for IPSASB to ensure that the public interest is served in the promulgation of International Public Sector Accounting Standards?

Rating 5/5

Consistent with previous views expressed by the XRB (and as noted in our responses to other questions), we consider that independent oversight of the IPSASB is an important contributor to public confidence in the IPSASB and its standards. Independent oversight gives the public, and the governments and organisations that adopt IPSAS, confidence that the IPSASB has followed its due process requirements as it strives to develop high-quality standards.

Independent oversight of the IPSASB also protects it from undue influence, or from the appearance of undue influence, from specific stakeholders or funders.

However, as alluded to in our other responses, we consider that the public interest is most strongly served by the standards themselves. It is the standards that lead to better financial reporting and allow the public to hold governments and other public sector entities to account. Independent oversight enhances the credibility of the standards.

Question 6**Do you believe this overall arrangement for promulgating International Public Accounting Standards remains appropriate?**

Rating 4/5

We are supportive of many aspects of the current arrangements. We have made the following suggestions in our response to other survey questions.

We have made some suggestions in response to Question 1 about improving the visibility of the PIC's activities and establishing formal lines of communication between the PIC and the IPSASB.

We have made suggestions in response to Question 3 about expanding the mandate of the PIC to develop a sustainable funding model for the IPSASB. The IPSASB needs to be sufficiently resourced to develop high-quality standards in a timely manner and consult appropriately with its constituents. It also requires resources to support the adoption of accrual accounting by governments. We encourage the PIC to investigate additional revenue streams as well as other ways of supporting the IPSASB.

We have made some suggestions in response to Question 4 about broadening the PIC membership.