

I. Introduction: General information about IPSASs and the IPSASB

1 The International Public Sector Accounting Standards Board

1.1 General information

The International Public Sector Accounting Standards – IPSASs for short – govern the accounting by public sector entities, with the exception of Government Business Enterprises. According to the IPSASB regulations, Government Business Enterprises should apply the International Financial Reporting Standards (IFRSs) issued by the IASB, as do private sector entities. IPSASs are developed by the International Public Sector Accounting Standards Board (IPSASB). It is an independent board founded by the International Federation of Accountants (IFAC) to develop and publish IPSASs.

The IFAC is an international organization for the accountancy profession. It was founded in 1977 and is domiciled in New York. According to the bylaws of the International Federation of Accountants, its mission is as follows: “to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession’s expertise is most relevant.” The IFAC had this in mind when it established the Public Sector Committee (PSC) in 1986 as a standing technical committee. The PSC initially focused on preparing and publishing studies and research reports on (international) public sector accounting. In 2004, the PSC was renamed IPSASB. In November 2011, the Terms of Reference of the IPSASB were extended. Henceforth, the IPSASB’s purpose is not only to set standards for the general purpose financial statements, but also to take care of **general purpose financial reports** (GPFRs). GPFRs refer to all financial reports which are intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs. The IPSASB now develops and issues, in the public interest and under its own authority, high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of GPFRs.

22 November 2011, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) announced an agreement to

strengthen their cooperation in developing private and public sector accounting standards. The mutual agreement between the IASB and IFAC, in the form of a **Memorandum of Understanding (MoU)**, reflects the IASB's and IFAC's view that "high-quality financial reporting standards contribute significantly to the effective functioning of capital markets and sound economic growth".

The agreement intends to strengthen the cooperation between the two boards, with the aim to commit to enhance initiatives of common and mutual interest. In the near term, the IPSASB and IASB will continue to hold regular liaison meetings, to update each Board on their respective work programs and to highlight financial reporting issues where alignment between requirements of the IASB and the requirements of the IPSASB is necessary. The IASB has observer status at the IPSASB board meetings. The IASB will also continue to provide input to specific IPSASB technical projects, especially to the Conceptual Framework project of the IPSASB. In the medium to longer term, IASB and IFAC will mutually consult on projects where both parties are likely to benefit from consideration of both private sector and public sector perspectives. A common project of IPSASB and IASB could be emissions trading schemes. The IASB and IFAC also agreed in the MoU that they want to discuss the future institutional and governance arrangements of standard setting for the public sector.

1.2 Structure and organization of the IPSASB

The members of the IPSASB are appointed based on recommendations by a nominating committee of the IFAC. The appointments are then made by the IFAC, considering technical and professional criteria, as well as a geographic and gender balance.

The chart below shows the structure and organization of the IPSASB (cf. figure 1).

The primary objective of the IPSASB is to develop and issue IPSASs as well as other guidance, and resources for use by public sector entities around the world, e.g., Recommended Practice Guidelines (RPGs), Studies or other papers and research reports. The aim of RPGs is to provide guidance that represents good practice that public sector entities are encouraged to follow. Studies shall provide advice on financial reporting issues in the public sector. They are based on research of the best practices and most effective methods for dealing with the issues being addressed. The IPSASB may delegate responsibility for conducting the necessary research and drafting of proposed standards and guidance to so-called **Task-based Groups (TBGs)**, individuals or staff. They can be chaired by a member of the IPSASB and, dependent on the topic, they can also include non-members of the IPSASB or the IFAC (e.g., observers). In case TBGs are complemented by non-IPSASB Members, then they are called **Task Forces**. The work of the Task-based Groups is usually focused on the creation of Consultation Papers or Exposure Drafts, which are made available to the general public. The aim of TBGs and the Task Forces

is to perform preparatory work for the board. Nevertheless, the final responsibility for the projects rests by the IPSASB. The publication of Consultation Papers and Exposure Drafts is intended to give interested individuals, groups, public sector entities or their representatives the opportunity to submit comments (usually within a period of four to six months). This allows the groups concerned by IPSASs to voice their opinion before the standards are approved and published by the IPSASB. The observers of the IPSASB include organizations that have an interest in public sector financial reporting, such as the European Commission, Eurostat, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the United Nations or the World Bank. As their role is of a supervisory nature, they are not entitled to vote.

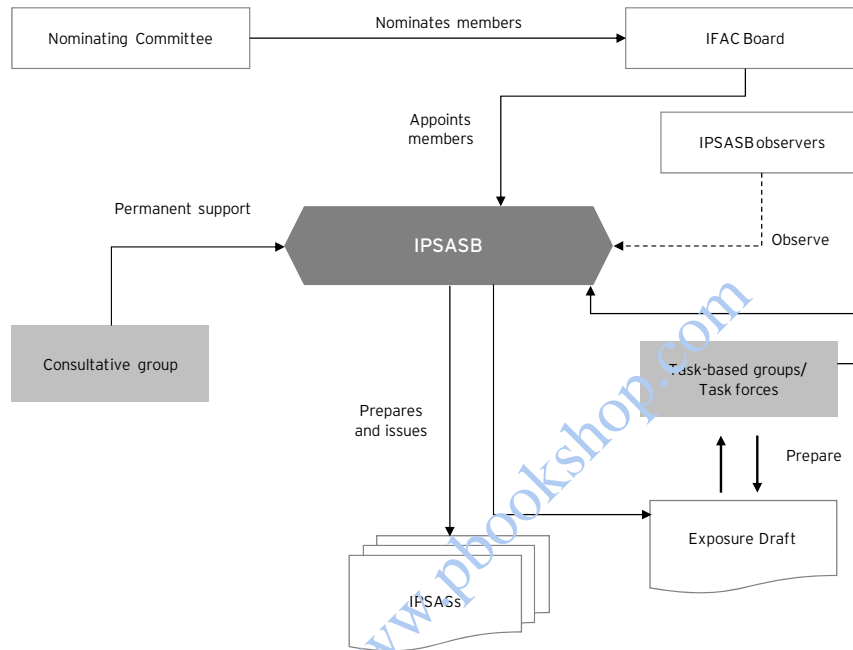


Figure 1: Structure and organization of the IPSASB

Besides financial support from the IFAC, the IPSASB also receives funding from several external sources, such as the Asian Development Bank (ADB), the European Commission (EC), the governments of Canada, New Zealand or Switzerland, the United Nations (UN) or the World Bank. Also personnel support was provided to the IPSASB in the form of technical managers, e.g., by the People's Republic of China, the Canadian Institute of Chartered Accountants (CICA), Ernst & Young or New Zealand's External Reporting Board (XRB).

The Consultative Group of the IPSASB provides a platform to facilitate the exchange of information between the IPSASB and specialists. Its aim is to provide a forum in which the IPSASB can consult with representatives of different groups of constituents to obtain input and feedback on its work program, project priorities, major technical issues, due process and activities in general.

In addition to IPSASs, the IPSASB issues other, non-binding publications such as studies, research reports and occasionally discussion papers dealing with specific accounting issues for the public sector. For example, in December 2010 the IPSASB issued the third edition of Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

1.3 Objectives of the IPSASB

The objective of the IPSASB is to serve the public interest by developing high-quality accounting standards for the public sector and by facilitating the convergence of international and national standards, thereby enhancing the quality and standardization of financial reporting around the world. Public interest in the pronouncement of IPSASs may arise, for example, from a national or supranational need to harmonize financial reporting of public sector entities. It is also in the public interest to continue developing public sector accounting by means of the IPSASB standardization projects. The IPSASB achieves these goals by:

- ▶ Publishing International Public Sector Accounting Standards (IPSASs)
- ▶ Promoting their acceptance and compliance on an international scale with these standards
- ▶ Publishing other documents that contain guidance on issues and experience with financial reporting in the public sector

1.4 Oversight of the IPSASB

The IPSASB has been actively discussing the need for oversight since September 2009. The IPSASB considered the fact that many member bodies of the International Federation of Accountants (IFAC) are currently not involved in public sector standard setting. On that basis, questions have been raised as to whether the IPSASB has the relevant standing to maintain its status as a credible standard setter for the public sector internationally. In order to sustain the IPSASB's growing credibility as the international standard setter for the public sector, the Board decided to develop a Consultation Paper that will address the need for oversight and explore how oversight might be implemented. The Consultation Paper explored the options for addressing the need for oversight, and has been prepared as a basis for consultation with a number of governments and stakeholders.

According to the Consultation Paper, *IPSASB, Proposals for Oversight*, the objective of oversight would be to increase the confidence of governments and other stakeholders that standard-setting by the IPSASB would respond to the interest of the public. Oversight would ensure that the development of international accounting standards for the public sector is independent and comprehensive. An oversight body would also warrant that the composition of the Board is well-balanced, that qualified members are selected and that the Board is complying with the due process requirements.

The Consultation Paper set out the proposed form and structure of two potential models of oversight. The first is a model based on existing structures of the Public Interest Oversight Board (PIOB, an international body that seeks to improve the quality and public interest focus of the international standards formulated by the IFAC in the areas of audit, education, and ethics), but with some adaptation to serve a public sector mandate. The model is premised on adding two additional members to the PIOB with a specific public sector focus. The public sector exclusive model (model 2) envisions a small oversight body of four members with high profile in the public sector.

The following table contrasts the two models:

Model 1: Oversight by PIOB	Model 2: Oversight by a Public Sector Exclusive Body
<ul style="list-style-type: none"> ▶ Oversight will be provided by the existing PIOB. ▶ The PIOB will be extended by two additional members with a specific public sector background. 	<ul style="list-style-type: none"> ▶ Oversight will be provided by a dedicated oversight body for the IPSASB, comparable to the PIOB but with a much narrower scope, focusing only on the public sector. ▶ This body would need to be founded.

Table 1: Models of oversight

An independent oversight regime for the IPSASB is also seen as necessary to encourage wider adoption of IPSASB standards. The creation of an oversight body may also provide assurance that the Board has the long-term capability and capacity to independently and rigorously address public sector financial reporting issues.

For either potential model of oversight described, the Consultation Paper anticipates that a Consultative Advisory Group (CAG) would be established comparable to other standard-setting boards within IFAC. Whereas the oversight body would not provide feedback to technical matters of the IPSASB's work, the CAG would have a direct role in providing feedback to technical questions. It is not expected that the set up of the CAG would change under either scenario.

The IPSASB also started to consider whether the composition of the IPSASB should be amended to increase the number of public members and decrease the number

of member body appointees commensurately. And finally, it is planned that a full-time Chair of the IPSASB will be implemented in the future.

In 2011 several IPSASB members, IFAC board members as well as IPSASB senior staff had consultations with selected governments based on the Consultation Papers. The result of these consultations was that there is high support for oversight of the IPSASB. Respondents underlined that changes in the oversight governance will enhance credibility of the IPSASB. Strong support was also expressed for the formation of a CAG. The feedback on the proposed two models of oversight was mixed. Overall, a preference for the PIOB adapted model (model 1) was expressed by a slight majority of respondents.

1.5 Members of the IPSASB

The members of the IPSASB are appointed by the IFAC Board. The IPSASB comprises a total of 18 members, 15 of whom are nominated by member organizations of the IFAC. The other three are public members, who can be nominated by any individual or organization. All IPSASB meetings convened to develop IPSASs or approve their publication are public.

The table below shows the countries represented on the IPSASB:

▶ Australia	▶ Japan	▶ Romania
▶ Canada	▶ Kenya	▶ South Africa
▶ China	▶ Morocco	▶ United Kingdom
▶ France	▶ New Zealand	▶ United States of America
▶ Germany	▶ Pakistan	▶ Uruguay

Table 2: Members of the IPSASB (without public members) (as of January 2012)

Currently, the public members of the IPSASB are from Canada, Italy and Switzerland. The public member from Switzerland, Prof. Dr. Andreas Bergmann, currently serves as the IPSASB's chair. In addition, the IPSASB appoints a limited number of observers from organizations that have an interest in public sector financial reporting. These observers have full speaking rights at IPSASB meetings, but no voting rights. The list below shows the organizations that have observer status:

- ▶ Asian Development Bank (ADB)
- ▶ European Commission (EC)
- ▶ European Investment Bank (EIB)
- ▶ Eurostat
- ▶ International Accounting Standards Board (IASB)
- ▶ International Monetary Fund (IMF)
- ▶ International Organisation of Supreme Audit Institutions (INTOSAI)
- ▶ Organization for Economic Co-operation and Development (OECD)
- ▶ United Nations/United Nations Development Programme (UN/UNDP)
- ▶ World Bank

Table 3: Organizations with observer status on the IPSASB (as of January 2012)

2 International accounting standards for the public sector

2.1 Overview of international accounting standards for the public sector

The IPSASB develops IPSASs for financial statements prepared on the accrual basis of accounting as well as for financial statements prepared on the cash basis of accounting. IPSASs govern the recognition, measurement, presentation and disclosure requirements in relation to transactions and events in **general purpose financial statements**. Such financial statements are characterized by the fact that they are issued for users who are unable to demand financial information to meet their specific information needs. On the basis of the new IPSASB Terms of References and as one of the consequences of its Conceptual Framework Project and the Projects on *Reporting Service Performance Information* and *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* the IPSASB widened its scope to **GPFRs**. According to IPSASB Conceptual Framework ED 1 Par. 1.3 GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFRs are characterized by the fact that they not only comprise financial statements but also refer to **other financial reports** intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs. GPFRs may include information about the past, present, and the future that is useful to users – including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs. More insights and information about the scope and content of GPFRs is given in IPSASB Conceptual Framework ED 1 Par. 1.