



Australian Government
**Australian Accounting
Standards Board**

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The Chairs and Members
The IPSASB Governance Review Group
Via email: IPSASB@oecd.org

Dear Chairs and Members

**Re: Public Consultation: The Future Governance of the International Public Sector
Accounting Standards Board (IPSASB) (January 2014)**

The Australian Accounting Standards Board (AASB) welcomes the efforts of the IPSASB Governance Review Group (GRG) to bring focus to the issue of improving the governance and oversight arrangements of the IPSASB.

By way of background, the AASB is an independent statutory authority that sets Australian Accounting Standards applicable to Australian reporting entities (whether in the for-profit, private not-for-profit or public sectors) in the preparation of general purpose financial statements. The AASB's approach to setting standards for Australian governments is to adopt International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), modified where necessary to deal with public sector specific issues. Typically, modifications for public sector specific issues are made after considering the IPSASB's approach to the issues. The AASB works closely with IPSASB, strongly supporting its mission.

The AASB agrees with the assessment by the GRG, and by the IPSASB itself, that the IPSASB's governance arrangements need to be markedly improved. They are not at the level of the IASB or of the major national standard setters.

The "Message from the Co-Chairs" in the GRG's public consultation paper links the criticism of IPSASB's governance and oversight arrangements with the low rate of adoption of IPSASs by national governments, citing past consultations that raised this matter. The AASB is aware that the criticism has been levelled on a number of occasions, but doubts that a lack of proper governance and oversight arrangements is more than a contributing factor to some jurisdictions' reluctance to improve public sector financial reporting. The AASB expects that a fear of the consequences of adopting certain IPSASs, a perception that sovereignty may be eroded and a lack of capacity are among the factors that are more likely to influence non-adoption. However, the AASB is of the view that every major standard-setter should have proper governance and oversight arrangements,¹

¹ As part of their contribution to the work of the International Forum of Accounting Standard Setters (IFASS), AASB staff have drafted *A Model for National Standard-Setters*. That Model (in near final form – to be made public in due course) identifies a range of characteristics that would be expected to be found in a highly regarded standard-setter. Although written from a national standard-setter's perspective, the GRG might find some of its content useful in its consideration of IPSASB.

irrespective of the level of adoption of its standards. Therefore, the AASB strongly supports the efforts of the GRG to engender change. It will be a welcome bonus if improved governance and oversight leads to markedly greater adoption of IPSASs.

Basis for Analysing the Options for Improvement

The consultation paper identifies three options that might be considered for improving IPSASB's governance and oversight. Rather than respond to each 'specific question to consider' in Section V of the consultation paper, this submission focuses on those options and on the practical considerations cited by the GRG as potentially influencing the selection of a way forward, namely:

- *“the speed with which the new governance arrangements can be put in place;*
- *the likely costs associated with different oversight options; and*
- *the availability of funding to meet those costs”*

However, the AASB believes that the primary focus for establishing improved IPSASB governance and oversight arrangements should be their ability to help instil confidence that financial reporting standards result from informed and expert consideration of users' needs by an independent standard-setting body. The AASB would strongly oppose any arrangements that interfered with good due process and the independence of the standard-setter subject to those arrangements.

Another major driver in the AASB's thinking is that it believes standards are primarily aimed at facilitating economic decision-making and that, even though circumstances differ between the sectors of the economy (that is, between the for-profit, private not-for-profit and public sectors), fundamentally economics are not sector specific. In the light of this, the AASB works very hard to ensure a high degree of consistency in Australian financial reporting standards applicable across all sectors. The AASB has been setting standards for all sectors since 1983 and, despite not adopting IPSASs directly, aims to achieve compliance with them wherever possible. Indeed, the compliance effectively achieved would be among the highest in the world.

Nevertheless, an ongoing tension for the AASB is the possibility that IPSASs and IFRSs will differ from one another simply because financial reporting issues are considered by the IASB and the IPSASB at different times, using different due processes and different resources. At present, there are no governance or oversight arrangements that would encourage the IASB and the IPSASB to come to timely and consistent answers, despite the fact that to do so would be logical given the commonality of their fundamental *raison d'être*. The AASB does not wish to see the seeds sown for future costly convergence programmes simply because the two organisations take a view of the role of financial reporting that is insufficiently broad. The AASB strongly believes that it is artificial to divide reporting issues between those seemingly relevant to (the private sector part of) the global capital markets and those seemingly only affecting the public sector (which is also part of the global capital markets). Thirty years of experience tells the AASB that there are only a few circumstances confined to any one sector and that the economic analyses needed when dealing with such circumstances are not unique.

Thus the AASB's views about governance and oversight are driven by two key positions:

- (a) there is a generic need for good governance and oversight of any accounting standard-setting; and
- (b) there is a need for good governance and oversight of standard-setting to encourage an appropriate degree of integration of standard-setting effort between sectors.

Having said this, the AASB agrees with the GRG that an expedient solution is much better than continuing with an absence of adequate governance and oversight arrangements. Thus the AASB's recommendation involves an intermediate step as a transition to its preferred model.

Recommendation

The AASB supports Option 1 in the consultation paper – the extension of the scope of the IFRS Foundation's Monitoring Board and Trustee activities (IFRS governance and oversight arrangements).

The IFRS governance and oversight arrangements have followed from many years of experience with the International Accounting Standards Committee (IASC) and been intensively developed over the period since 2001. They are tuned to the setting of global financial reporting standards, have weathered the storms of the global financial crisis and, fundamentally, have the AASB's confidence. Those on the Monitoring Board and Trustees are experienced, expert and appropriately related to an independent IASB. Their membership could be expanded to include relevant public sector experience.

As an interim step, the AASB recommends Option 2 if the judgement is made that the IFRS governance and oversight arrangements cannot be accessed in less than two to three years. The AASB sees this interim step as having the merits of being capable of relatively quick implementation and that funding seems to be available through IFAC. However, this step does not enjoy the benefits cited above for the IFRS governance and oversight arrangements and has the major problem of perceived lack of independence from the accounting bodies who are the members of IFAC. It was recognised at the formation of the IASB that the nexus between the accounting bodies and the standard-setter needed to be broken. The AASB believes public sector standard-setting is in the same position as that faced by the IASC.

Option 3 of creating another free-standing arrangement is not supported by the AASB because it foregoes all the benefits cited above for the IFRS governance and oversight arrangements, in favour of trying to parallel those benefits over time. Nor would it be quick to implement. The AASB is fearful that having the IFRS and the IPSAS standard-setting arrangements under two ongoing and separate governance and oversight models would be very likely to engender unnecessary sector specific, uncoordinated financial reporting regimes. The AASB would be strongly opposed to that.

Funding

The AASB is far from convinced that funding should be seen as a primary driver. The task of funding Options 1 and 2 is quite small compared with the funding of the establishment of the entire IFRS arrangements. If even a relatively small number of governments supported leveraging those arrangements, the cost per government would be relatively small. The AASB is more concerned about the adequacy of the general level of funding for global public sector accounting standard-setting, no matter which model is adopted; but that is a separate issue.

Concluding Comments

The AASB strongly supports the extension of the IFRS governance and oversight arrangements to embrace IPSASB (Option 1). It could accept the IFAC option (Option 2) as a temporary measure.

The AASB is aware that the Financial Reporting Council in Australia is also making a submission and has made this submission available to that Council.²

If any further information or clarification is required, please feel free to contact me.

Yours sincerely



Kevin M Stevenson
Chairman and CEO

² The Council, a statutory body, is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. One of its key functions is the oversight of the accounting and auditing standards setting processes for the public and private sectors and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. It monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards.