

**REPORT OF THE  
EXTERNALLY CHAIRED  
REVIEW PANEL ON THE  
GOVERNANCE, ROLE AND  
ORGANISATION OF THE  
INTERNATIONAL  
FEDERATION OF  
ACCOUNTANTS PUBLIC  
SECTOR COMMITTEE**

**JUNE 2004**

## EXECUTIVE SUMMARY

### INTRODUCTION

The Board of the International Federation of Accountants (IFAC) commissioned an externally chaired review of the Public Sector Committee (PSC) in October 2003. The Panel Sir Andrew Likierman, Head of the United Kingdom Government Accountancy Service, chaired the Review Panel. The Panel sought the views of the PSC's main constituents through a questionnaire. The response to the questionnaire informed the Panel's consideration of the PSC's role, governance and organisation and its approach to the translation of pronouncements, exposure drafts and invitations to comment. The Panel also considered the PSC's current funding, budgetary arrangements and the location of PSC staff.

### ROLE OF PSC

The Panel considers that the case for an independent standard-setter is proven on a logical and intellectual level. The factors that led to the launch of the Standards Program in 1997 are still valid. The Panel supports the PSC's current focus on accounting standards-setting and considers that this should be recognised by a modification of its current terms of reference and by the PSC seeking the approval of the IFAC Board to adopt the name, *The International Public Sector Accounting Standards Board*.

Whilst stakeholders are supportive of the PSC's activities the funding necessary to sustain the Standards Program on an ongoing basis and fulfil the demands on a standard-setter responsible for top quality output has not crystallised. Funding from external stakeholders is not guaranteed beyond the end of 2004. It is important that, in order to assure the future of the Standards Program, there is a recommitment of existing funding and that new funding is acquired.

Increased funding is essential if the PSC is to discharge its role as a high quality standard-setter. Currently fundraising has been deferred pending the results of this Review. It is imperative that fundraising is resumed at the earliest possible opportunity. Such fundraising should include targeting at the audit and consultancy firms that rely on IPSASs for consultancy engagements on the migration from cash to full accrual, multi-lateral and bi-lateral donors and other financial statement users, including credit-rating agencies.

In the Panel's view the PSC has made an effective contribution to global public sector financial reporting through its pronouncements. At present the PSC work program has 3 main components: the development of approaches to issues of particular significance to the public sector, harmonisation with International Accounting Standards/International Financial Reporting Standards (IAS/IFRS), and harmonisation between International Public Sector Accounting Standards (IPSAS) and statistical bases of reporting such as those in the Government Finance Statistics Manual. The current composition and balance of its work program is sound. This work program needs to be delivered if the PSC is to sustain its credibility as a global standard-setter producing high quality outputs.

Other IFAC Committees should consider how they address public sector issues in order to ensure that relevant aspects of public sector financial management and governance are given appropriate consideration by IFAC. If necessary they should consider amending their terms of reference. The Panel commends the recent arrangement between the International Auditing

& Assurance Standards Board (IAASB) and the International Organisation of Supreme Audit Institutions to ensure that IAASB pronouncements are informed by public sector considerations.

The Panel acknowledges the importance of the cash basis of financial reporting and considers that the issue of a comprehensive standard on the cash basis in 2003 was a major landmark. The Panel does not think that, over the medium term, significant additional resources should be allocated to the cash basis of reporting beyond those necessary to review the operation of the cash based IPSAS and to consider the relevance of disclosures in newly adopted or revised accrual based IPSASs. In reaching this view the Panel noted that, for those wanting more attention to the cash basis, the priority is for assistance with implementation of the existing Standard. The Panel is not convinced that the PSC is best placed to provide such assistance, but assistance on implementation is an issue that IFAC as a whole should consider more widely.

## GOVERNANCE AND ORGANISATION

In the Panel's view the long-term aspiration of the PSC should be for a convergence of financial reporting standards between the private and public sectors where appropriate. This aspiration should recognise that there are a number of issues specific to the public sector or of particular significance to the public sector. Separate standards or adaptations of private sector standards are likely to be needed for such issues. However, the objective of "convergence when appropriate" will not be achieved in the short-term or even medium-term. In order to ensure that the PSC is positioned to fulfil this aspiration it is important that the component of the work programme addressing harmonisation with IAS/IFRS is maintained and adequately resourced.

The PSC should consider as an immediate priority a modification to the current governance arrangements. It is the view of the Panel that the PSC should be within the scope of the Public Interest Oversight Board (PIOB) and that the composition of the PIOB should be modified to include members with expertise in public sector financial reporting. The IFAC Board should take up this issue with the Monitoring Group of Regulators as soon as possible.

The Panel also notes that other IFAC standing committees with standard setting responsibilities- the IAASB, Education Committee and Ethics Committee- all have public members. The Panel considers that there is a very strong case for the appointment of public members to the PSC, as this will emphasise that there is a genuine public interest in high quality public sector reporting and allow appointments from constituencies such as national finance ministries which are not well represented on the PSC.

The Panel notes that the private not-for-profit sector is currently outside the scope of both the International Accounting Standards Board (IASB) and the PSC. Whilst the Panel considers that this leaves a significant gap in terms of the coverage of global financial reporting standards it would be premature to extend the scope of the PSC to include the private not-for-profit sector until the forward funding of the Standards Program is assured. However, the PSC should have a medium term objective to include the private not-for-profit sector within its scope and should communicate such an aim to its constituents.

The Panel endorses the PSC's governance mechanisms and due process as sound and conducive to transparency and effective working. There is, however, a strong case for

modifying the current requirement for a three-quarters majority for the approval of full pronouncements and making the requirement a two-thirds majority of the voting rights in the PSC.

Currently the PSC meets three times a year. Because of the need to engage with regional constituents and to ensure that regional meetings of the recently reactivated Consultative Group have adequate time, the Panel has significant reservations whether the current arrangement for meetings will enable the PSC to discharge its responsibilities. The Panel therefore considers that the PSC should increase the duration of meetings from three days to four or increase the number of meetings to four a year.

Currently the IFAC Board has a policy that 50% of the meetings of its standing committees should be in New York. The Board is prepared to vary this policy if committees have sound reasons for holding a higher proportion of meetings outside New York. Whilst recognising the flexibility of the Board, the Panel considers that it is important that PSC meetings are used to link with key constituents. Many of these constituents are in developing and transition nations, particularly jurisdictions which are enhancing the quality of their cash based reporting or are embarking on the migration to accrual reporting. The Panel therefore believes that the policy on New York meetings should not be applied to the PSC.

The PSC's current size is reasonable. However, any increase in size would potentially impair its efficiency and would be inappropriate. There is also a strong case for limiting the number of technical advisers to one per member. In addition there are geographical and gender imbalances in the composition of the PSC. The IFAC Nominating Committee should address these imbalances.

The demands on the PSC Chair have increased significantly over the last few years, with particular emphasis on funding and promotional work. Such demands are likely to increase over the foreseeable future. This was recognised by the IFAC Board when it made a decision to appoint a Vice-Chair in November 2003, the first time such a post had been formally created. In principle the Panel thinks that there is a strong case for making the Chair post full time and remunerated. A full-time Chair could enhance the technical capability of the PSC. However, recognising the financial challenges facing the PSC, the Panel does not think that moving to a full or part- time remunerated Chair's post is appropriate at present. Available funding should be prioritised for retaining current staff levels and, initially, any further funding injections should be directed at increasing staffing resources.

## SCHEDULE OF RECOMMENDATIONS & MAIN CONCLUSIONS

### ROLE OF THE PUBLIC SECTOR COMMITTEE

#### (a) Need for an independent global standard-setter for the public sector

*The Panel considers that:*

- *The case for an independent standard-setter is proven on a logical and intellectual level. Nevertheless, support for the Standard Program has not significantly translated into external funding commitments necessary to sustain the continued viability of the Program*

*The Panel recommends that:*

- *Fundraising is resumed at the earliest possible opportunity and is targeted at the audit and consultancy firms that rely on IPSAs for consultancy engagements on the migration from cash to full accrual reporting, multi-lateral and bi-lateral donors and other financial statement users including credit-rating agencies*

#### (b) Focus and mandate of the PSC

*The Panel recommends that:*

- *The PSC focuses its resources on financial reporting standard-setting*
- *The terms of reference of other IFAC standing committees be amended to address public sector issues*
- *The PSC mandate is amended to reflect the PSC's primary focus on financial reporting standard-setting*

#### (c) Content of work programme

*The Panel endorses the content of the PSC's current work program recommends that:*

- *The work program addresses issues of particular significance to the public sector, IFRS/IAS developments and the harmonisation of accounting and statistical reporting*

**(d) Conceptual Framework**

*The Review Panel recommends that:*

- *The PSC does not initiate a project to develop its own conceptual framework, but considers a project on interpretation of the IASB's existing framework in a public sector context or working with partner national standard-setters, which are carrying out work on a conceptual framework*

**(e) Partnering National Standard-Setters**

*The Panel recommends that:*

- *The PSC continues to use Steering Committees for appropriate projects and moves to establish more formal partnering arrangements with selected national standard-setters*

**(f) Cash Basis of Reporting**

*The Panel recommends that:*

- *The PSC should fulfil the commitment to review the operation of the Cash Basis IPSAS in 2005 and should also periodically assess the relevance of disclosures in newly approved or revised IPSASs to the cash basis of financial reporting*
- *The IFAC Board should consider ways in which the organisation as a whole can assist with practical implementation of the Cash Basis IPSAS*

**GOVERNANCE AND ORGANISATION**

**(g) The Appropriate Governance Model**

*The Panel recommends that:*

- *The PSC's long-term objective should be for private sector and public sector financial reporting standards to converge where appropriate, whilst recognising the need for separate standards, or adaptations of private sector standards, on issues specific to, or of particular significance to, the public sector. The PSC should be brought within the scope of the Public Interest Oversight Board*
- *The composition of the Public Interest Oversight Board should be modified to include members with expertise in public sector financial reporting*
- *The PSC's terms of reference should be modified to include the appointment of public members who need not be members of IFAC member bodies*
- *The PSC should adopt and communicate a medium term aim of*

*including the private not-for-profit sector within its scope*

**(h) Nomination and Rotation Policy**

*The Panel recommends that:*

- *The IFAC Nominating Committee should be aware that the standards-setting focus of the PSC needs to be taken into account in making nominations for the PSC to the IFAC Board and should continue to consult with the Chairman of the PSC over new appointments and replacements*

**(i) Renaming the PSC**

*The Panel recommends that:*

- *The PSC seeks the approval of the IFAC Board to rename itself the International Public Sector Accounting Standards Board*

**(j) Creation of a Full-time or Part-time Chair Post**

*The Panel recommends that:*

- *Whilst it would be desirable to make the Chair's position a full-time one, this should not be done until there is an adequate budget*
- *Available funding should be prioritised for retaining current staff levels and, initially, any further funding injections should be directed at increasing staffing resources*

**(k) Number of Meetings**

*The Panel recommends that:*

- *The PSC lengthens the duration of meetings or increases the number of meetings to 4 times a year*
- *The IFAC Board should exclude the PSC from the requirement that 50% of meetings should be held in New York*

**(l) Interpretations Committee**

*The Panel recommends that:*

- *At this time the PSC should not establish an interpretations committee*

**(m) PSC Size and Geographical Representation**

*The Panel recommends that:*

- *The IFAC Nominating Committee addresses geographical and gender*

*imbalances in the composition of the PSC, as well as the need for substantive developing nations participation, whilst recognising the competences required for membership*

- *A limit of one technical adviser per member be introduced for the PSC*

**(n) Due Process**

*The Panel recommends that:*

- *The PSC retains its current provisions to due process with consultation periods of a minimum 4 months and that the terms of reference are amended to reflect such a requirement.*

**(o) Approval arrangements**

*The Panel recommends that:*

- *The PSC's terms of reference should be amended to include formal provisions on proxy voting*
- *The PSC's terms of reference should be amended to include approval requirements of two-thirds of members present for exposure drafts, invitations to comment and pronouncements, subject to an affirmative vote of at least two-thirds of the voting rights in the PSC.*

**(p) Observer Status**

*The Panel recommends that:*

- *There be no change to the current approach to the appointment of observers*
- *The PSC reviews the current composition and role of observers as a standing agenda item annually*

**(q) Role and operation of the Consultative Group**

*The Panel recommends that the PSC:*

- *The PSC continues to maintain a Consultative Group*
- *Clarifies the role of the Consultative Group*
- *Takes steps to appoint Regional Chairs for the Consultative Group*
- *Places more emphasis on electronic working with the Consultative Group*
- *Targets issues on which it particularly seeks a view from Consultative Group members*



## TRANSLATION

*The Panel recommends that:*

- *The PSC maintains its arrangement with the IASC Foundation for the translation of pronouncements into Spanish and French*
- *Despite the benefits which would undoubtedly arise the PSC does not have the resources at this stage to translate EDs and ITCs into languages other than English*

## BUDGET

*The Panel recommends that:*

- *The PSC makes greater use of New York based staff to carry out technical work*

## STAFF LOCATION

*The Panel recommends that:*

- *No decision to relocate staff is made until the medium term financial position of the Standards Program is clearer*

# **REPORT OF THE EXTERNALLY CHAIRED REVIEW PANEL ON THE GOVERNANCE, ROLE AND ORGANISATION OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS' PUBLIC SECTOR COMMITTEE**

## **1 INTRODUCTION AND OBJECTIVES**

At its meeting in Quebec City in October 2003, the Board of the International Federation of Accountants (the IFAC Board) agreed to an externally chaired review of its Public Sector Committee (PSC). This decision was part of the broader reform process, which IFAC had initiated earlier in 2003, to create a more transparent and participatory set of processes. Those broader initiatives were formally adopted as the IFAC Reform Agenda at the IFAC Council Meeting in November 2003. They included the creation of a new oversight mechanism, the Public Interest Oversight Board (PIOB), with a membership that extends beyond the accountancy profession. The PIOB has oversight of IFAC Committees responsible for the development and maintenance of auditing and assurance, ethical and educational standards. As it is currently set up the scope of the PIOB does not include the PSC.

The purpose of the Review is to make recommendations on the strategies to achieve PSC objectives in the long term, and to note any specific strategic initiatives/developments that should be implemented in the short term, medium term and long term. In this report these time frames are defined as within a year (short), 1-5 years (medium), and over 5 years (long). The Review addressed the following objectives:

- (i) To assess and make recommendations on whether the PSC's standards-setting activities should continue to be supported.
- (ii) To assess the appropriateness of the PSC's current objectives, mandate, governance arrangements, operating procedures and relationships with key stakeholders.
- (iii) To assess the PSC's achievement of these objectives and the discharge of its mandate.
- (iv) To make recommendations on whether, and if necessary how, the PSC's objectives, mandate, governance arrangements and key stakeholder relationships should change and develop, and the resources necessary to support its ongoing activities.
- (v) To assess the responsiveness the PSC's work program to its existing and proposed objectives.
- (vi) To identify any extraneous factors (changes in underlying assumptions) that would/could influence the Review Panel's recommendations going forward.
- (vii) To evaluate approaches for measuring the success of the Committee's standards-setting and other agreed activities over defined periods.

The Review Panel's (the Panel) full terms of reference and its membership are included at Appendix A.

## 2 BACKGROUND

The PSC was established in 1986 as a standing Committee of IFAC with a broad mandate to develop programs for the improvement of public sector financial management and accountability. Such programs included financial reporting, auditing, corporate governance and management accounting. Although its mandate was not modified, the role of the PSC changed significantly with the launch of the Standards Program in 1996. Since 1996 the PSC has increasingly focused on fulfilling a role as a global financial reporting standard-setter for the public sector. In 1999 the PSC made a decision to focus on the full accrual basis of accounting and to also address the needs of constituents reporting on the cash basis.

The first phase of the Standards Program was completed early in 2002 and comprised the publication of 20 accrual based International Public Sector Accounting Standards (IPSASs) and allied guidance on the migration from the cash basis to the accrual basis. These IPSASs, which are available free of charge from the IFAC website, were based on International Accounting Standards (IAS) in existence in August 1997. In early 2003, following a lengthy development period, the PSC published an omnibus IPSAS on financial reporting under the cash basis of accounting. This was the first publication to promulgate requirements and suggest relevant disclosures for jurisdictions reporting on the cash basis.

In 2002 the PSC initiated the second phase of the Standards Program. As well as continuing to address the public sector implications of developments in IAS and International Financial Reporting Standards (IFRS) since 1997, the second phase is addressing issues of particular significance to the public sector such as accounting for the social policies of government and accounting for non-exchange revenue. Such topics are central to sound public sector financial reporting, but are not addressed in IAS/IFRS. The PSC issued Invitations to Comment on these topics in early 2004. The PSC has also further developed its approach to the impairment of assets on which it published an ITC in 2001. The non-cash generating nature of most assets employed by public sector entities makes the interpretation of IAS 36, *Impairment of Assets*, especially complex. The PSC issued an exposure draft on Impairment in July 2003. The PSC has also recently participated in broader based initiatives with key stakeholders to identify and, where appropriate, eliminate differences between the accounting and statistical bases of financial reporting and also to influence the revision of the System of National Accounts in 2008.

In order for the Standards Program to be viable the PSC has raised funds from external parties such as the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank over and above the funding provided by IFAC and the input of volunteer members of the PSC. Without the funding provided by these stakeholders the Standards Program would not have been sustainable. The ongoing viability of the second phase is questionable unless external funding is increased.

## 3 APPROACH OF REVIEW PANEL

In order to ascertain the views of constituents the Review Panel designed and disseminated a questionnaire. The questionnaire, which is included at Appendix B (addressed the PSC's role and aspects of its governance, due process and organisation.

There were 142 responses to the questionnaire spanning the PSC's key constituent groups and geographical regions

Despite the efforts of the Panel to reach out to audit bodies and finance ministries the response from these constituencies was disappointing. Geographically there was a large response from Europe and, in proportionate terms, Oceania. Conversely, South and Central America and the Caribbean were poorly represented and there were no responses from Francophone Africa. The Panel recognised the structure of the response during their discussions and in framing the recommendations in this report.

The Chairman and another member of the Panel held discussions in person or by telephone with the Chairman of the International Accounting Standards Committee Foundation, Chairman of the International Accounting Standards Board (IASB) and the President of IFAC.

#### 4 STRUCTURE OF THIS REPORT

The Report firstly examines the rationale for an independent global standard-setter and the viability of the Standards Program in the context of current funding. It then considers the PSC's role and the focus of its activities. It proceeds to evaluate key aspects of the PSC's governance arrangements and due process. The final sections of the Report consider the translation of PSC pronouncements and exposure drafts, budgetary issues and also the location of PSC staff.

#### 5 ROLE OF THE PUBLIC SECTOR COMMITTEE

##### (a) **Need for an independent global standard-setter for the public sector**

The Panel considers that the case for an independent standard-setter is proven on a logical and intellectual level. The factors that led to the launch of the Standards Program in 1997 are still in place. These include:

- the need to enhance and improve the quality of public sector financial reporting and build on recent improvements
- the enhancement of international consistency and comparison
- the significance, often neglected, of public sector debt in global capital markets
- the fact that few countries have independent standard-setters with a public sector remit
- the need for a standard-setter independent of national governments
- the global economies of scale that can be achieved through an international independent standard-setter
- the enhancement of the quality of financial management in the public sector

The Standards Program was strongly endorsed by respondents to the questionnaire. Over 85% of respondents supported the existence of an independent standard-setter for the public sector.

The success of the Standards Program cannot be gauged purely through the number of jurisdictions and entities that have adopted IPSASs. There is considerable evidence emerging, particularly from East, Central and Southern Africa, South America, Asia and Europe that the pronouncements of the Committee are becoming more influential. Many jurisdictions are using IPSASs in order to develop their own standards and accounting policies and the recent Invitations to Comment (ITC) on *Non-exchange Revenue* and *Accounting for the Policy Obligations of Government* have enhanced the PSC's profile in developed nations and with the national finance ministry constituency. National standard-setters are increasingly reflecting the views of the PSC in their own debates on public sector financial reporting.

Nevertheless, support for the Standards Program has not translated into significant increases in external funding beyond those of the core funders highlighted above in Section 2. Because the PSC makes its output available free of charge, both electronically and in hard copy, there is a "free rider" issue. Prima facie, jurisdictions and entities have little incentive, other than altruism, to contribute to the activities of the PSC. Whilst the Panel does not advocate a change to the policy that the PSC has established for distributing IPSASs and other pronouncements at no charge, it is essential that supporters of the Standards Program are aware of the importance of external funding. It is the view of the Panel that the demise of the Standards Program would be to the detriment of financial governance worldwide, by depriving jurisdictions and entities embarking on the journey to accruals reporting of a set of high quality standards that they can interpret in a local context. It would also reduce the profile that financial reporting has assumed in broader governmental governance over the last 10-15 years.

The Panel notes that, over the last 2-3 years, the viability of the Standards Program has been achieved largely through a combination of staff vacancies and carefully matching contributions to financial periods –the IMF contributed up-front in a lump sum of \$200K in 2001 to cover a 4 year period. However, funding from external stakeholders is not guaranteed beyond the end of 2004. It is important that, in order to assure the future of the Standards Program, there is a recommitment of existing funding and that new funding is acquired.

Whilst stakeholders are supportive of the programme the funding necessary to sustain the programme on an ongoing basis and fulfil the demands on a standard-setter responsible for top quality output has not crystallised. Currently fundraising has been deferred pending the results of this Review. In the view of the Panel it is imperative that fundraising is resumed at the earliest possible opportunity and prioritised as a key activity. Such fundraising should include targeting the audit and consultancy firms that rely on IPSASs for consultancy engagements on the migration from cash to full accrual reporting, multi-lateral and bi-lateral donors and other users, including credit-rating agencies.

***The Panel considers that:***

- ***The case for an independent standard-setter is proven on a logical and intellectual level. Nevertheless, support for the Standard Program has not significantly translated into external funding commitments necessary to sustain the continued viability of the Standards Program***

***The Panel recommends that:***

- ***Fundraising is resumed at the earliest possible opportunity and is targeted at the audit and consultancy firms that rely on IPSASs for consultancy engagements on the migration from cash to full accrual, multi-lateral and bi-lateral donors and other financial statement users, including credit-rating agencies.***

**(b) Focus and mandate of the PSC**

The Panel noted that the terms of reference of the PSC involve:

- the development of accounting and auditing standards and the promotion of their voluntary acceptance
- the development and co-ordination of programs to promote education and research
- the encouragement and facilitation of the exchange of information among member bodies and other interested parties.

Since 1997, when the Standards Program was launched, accounting standard-setting has dominated the work program of the PSC. Currently the PSC develops public sector perspectives for certain pronouncements of the International Auditing and Assurance Standards Board (IAASB), although this is carried out by a volunteer sub-committee of members and technical advisers co-ordinated by the PSC staff member in New York and does not consume much resource or meeting time. In December 2003 the IAASB finalised a Memorandum of Understanding (MOU) with the International Organisation of Supreme Audit Organisations (INTOSAI). The MOU establishes a working arrangement that will involve INTOSAI participation on certain IAASB Task Forces in order to advise on the public sector considerations to be included in IAASB pronouncements. Whilst this arrangement has not yet fully crystallised it is expected that the PSC will be relieved of its responsibility for the development of public sector perspectives later in 2004. The Panel commends this arrangement. With this exception, and the publication and ongoing maintenance of the Study 14 guidance on migrating to the full accrual basis, the current work program almost completely encompasses Standards Program activities. Whilst the PSC published an influential study on corporate governance in 2001, it is not currently carrying out projects in this area and has not been active in education and management accounting for a number of years.

The demands on a global standard-setter are such that PSC is not equipped to run the Standards Program as its primary activity and devote sufficient resource to enable it to produce high quality outputs in other areas.

Consequently the Panel considers that the standing IFAC committees should follow the lead of the IAASB and actively consider how they can address public sector issues. If necessary they should consider amendments to their terms of reference. The PSC should play a role in providing other standing IFAC committees with links to key public sector constituents.

The Panel further considers that the PSC's focus on standard-setting should be formalised by amending the terms of reference to reflect the PSC's narrower scope. This will remove, or at least reduce, doubts about the role of the PSC. Such a change is also supported by a majority of survey respondents.

***The Panel recommends that:***

- ***the PSC focuses its resources on financial reporting standard-setting***
- ***the terms of reference of other IFAC standing committees be amended to address public sector issues***
- ***the PSC mandate is amended to reflect the PSC's primary focus on financial reporting standard-setting***

**(c) Content of Work Programme**

Currently the PSC's work programme has three main components:

- developing approaches to issues of particular significance to the public sector, including budgetary issues
- harmonising with IFRS/IAS changes and catching up with IFRS issued since August 1997
- harmonisation of IPSAS and statistical reporting.

The Panel notes the strong support amongst constituents for all three components. In particular questionnaire respondents showed a high level of enthusiasm for a program of projects on issues of particular public sector significance, whilst also recognising the importance of addressing the IAS/IFRS dimension. The Panel endorses the PSC's current work program. It is the Panel's view that the work program needs to include all three components in order to satisfy the demands of constituents and maintain the credibility of the Standards Program. .

In particular the Panel cautions that a failure to reflect changes in IFRS/IAS and to address new IFRSs with a clear public sector relevance is likely to diminish the relevance of IPSASs in jurisdictions which are migrating to the accrual basis of reporting and will not be conducive to achievement of the long term aspiration of convergence between private and public sectors where appropriate. It would also jeopardise the credibility of the current suite of

IPSASs. The Panel therefore endorses the project that the PSC has launched to address the implications of IFRS 1, *First Time Adoption of IFRSs* and the changes to existing standards arising from the IASB's recently concluded Improvements Project.

The Panel also recognises that the increasing significance of the harmonisation of accounting and statistical reporting approaches and supports the leading role that the PSC has taken in progressing attempts to eliminate differences between accounting and statistical bases and to effect reconciliations where an elimination of differences is either not feasible or inadvisable.

***The Panel endorses the content of the PSC's current work programme and recommends that:***

- ***The work program addresses issues of particular significance to the public sector, IFRS/IAS developments and the harmonisation of accounting and statistical reporting***

**(d) Conceptual Framework**

The PSC has not developed and adopted its own conceptual framework. In essence, as the first stage of the Standards project was based on IAS in existence in August 1997, the PSC has implicitly adopted the IASB's framework and its definitions have modified certain elements of the IASB framework. This methodology is reflected in the recently issued *Glossary of Defined Terms: IPSAS 1-20*.

In November 2002 the PSC agreed that it would defer the decision on whether or not to action a project on the development of its own conceptual framework. The PSC subsequently extended this deferral in order to await feedback from this Review.

The Panel recognises the case for the PSC developing its own conceptual framework and the fact that a clear majority (around 65%) of questionnaire respondents supported such a development. The Panel also notes that the development of Invitations to Comment on public sector specific issues, particularly non-exchange revenue, had exposed certain problems in adapting the IASB to public sector circumstance, in particular in interpreting elements such as contributions from owners, which do not resonate for many public sector users of financial information.

However, the development of a full conceptual framework will undoubtedly be a very time consuming task, and given the priorities facing the PSC at present the Panel does not consider that such a project should be initiated at this time. Possible alternative approaches include the initiation of a project on the interpretation of the IASB framework in a public sector context or working with partner standard-setters, which are carrying out work on a conceptual framework.



*The Review Panel recommends that:*

- *The PSC does not initiate a project to develop its own conceptual framework, but considers a project on interpretation of the IASB's existing framework in a public sector context or working with partner national standard-setters, which are carrying out work on a conceptual framework*

**(e) Partnering National Standard-Setters**

The Panel is supportive of partnering arrangements with national standards-setters and notes in particular the contribution that staff from the US Governmental Accounting Standards Board has made to the exposure draft on *Impairment of Assets*, which was issued by the PSC in 2003. Over 90% of questionnaire respondents supported partnership arrangements.

The creation of Steering Committees for the development work on non-exchange revenue and the policy obligations of governments has involved a form of partnership working. Steering Committees have involved individuals and institutions outside the current membership of the PSC and have allowed the PSC to access knowledge and expertise that would not arise naturally from the nominating process. Members of Steering Committees have backgrounds from finance ministries/treasuries, regional, state and local government, audit institutions, national statistics offices and national standard-setters. The Panel considers that the introduction of Steering Committees has been highly successful and that the PSC should continue to use this approach for appropriate projects.

The advantage of partnering arrangements is that they will facilitate resource efficiencies by leveraging off work being undertaken in other jurisdictions, minimise duplication and access leading edge thinking. It also helps the PSC with managing its funding problem (see above section (a)), given that partners may offer their time and resource as a 'free good' to the PSC. We discuss the potential for partnership working on a conceptual framework in section (d) above.

*The Panel recommends that:*

- *The PSC continues to use Steering Committees for appropriate projects and moves to establish more formal partnering arrangements with selected national standard-setters*

**(f) Cash Basis of Reporting**

The PSC issued a single comprehensive IPSAS on the cash basis of accounting early in 2003. The IPSAS distinguishes requirements and encouraged disclosures. The Panel notes that, when the Cash Basis IPSAS was approved the PSC made a commitment to review the operation of the Standard in 2005. The Panel considers it essential that the Committee fulfils this commitment. The Panel also notes the intention to assess the extent to which

disclosures in newly adopted accrual-based standards and changes to existing standards have an impact on the Cash Basis IPSAS and endorses this approach.

The Panel noted that a majority of respondents (over 60%) to the questionnaire did not advocate the allocation of further resources to the cash basis. The Panel treated this response cautiously as it appears to reflect predominantly the views of respondents from developed nations where the cash basis of accounting has been superseded by either full accrual, or some form of modified accrual, reporting or where a decision has been made to migrate to the full accrual basis. However, it was noticeable that the small number of respondents from both Africa and Asia were broadly evenly split on this issue. Nevertheless the Panel does not think that, over the medium term, significant additional resources should be allocated to the cash basis of reporting beyond those necessary to fulfil the activities highlighted above. In reaching this view the Panel noted that for those wanting more attention to cash the priority is for assistance with implementation of the existing Standard. The Panel is not convinced that the PSC is best placed to provide such assistance, but it is an issue that IFAC as a whole should consider more widely. In particular the newly created Developing Nations Permanent Task Force might consider barriers to implementation of the Cash Basis IPSAS in its more general assessment of the impediments to sound financial reporting in developing nations.

***The Panel recommends that:***

- ***The PSC should fulfil the commitment to review the operation of the Cash Basis IPSAS in 2005 and should also periodically assess the relevance of disclosures in newly approved or modified IPSASs to the cash basis of financial reporting.***
- ***The IFAC Board should consider ways in which the organisation as a whole can assist with practical implementation of the Cash Basis IPSAS***

## 6 GOVERNANCE AND ORGANISATION

### (g) The Appropriate Governance Model

In the Panel's view the long-term objective of the PSC should be for standards that converge with those of the private sector where appropriate. This objective should recognise that there are a number of issues specific to the public sector or of particular significance to the public sector. Separate standards, or adaptations of private sector standards, are likely to be needed for such issues. In order to ensure that the PSC is positioned to fulfil this objective it is important that the component of the work programme addressing harmonisation with IAS/IFRS is maintained and adequately resourced.

In the short term the IFAC Board and the PSC should consider as an immediate priority a modification to the current governance arrangements. Two models are feasible. The first would maintain the PSC's current position

as a standing committee of IFAC, but would bring the PSC within the scope of an oversight board, either the Public Interest Oversight Board (PIOB) or a newly created oversight board specific to the PSC. Bringing the PSC within the scope of the PIOB would require the composition of the PIOB to be modified in order to reflect public sector knowledge and experience. Such a change would have to be discussed with IFAC's key stakeholders, in particular the regulator community. The second model would involve the creation of a separate Board of Trustees, which, as well as IFAC would also include key stakeholders. It is the view of the Panel that the PSC should be within the scope of the PIOB and that the composition of the PIOB should be modified to include members with expertise in public sector financial reporting. The IFAC Board should take this up with the Monitoring Group of Regulators as soon as possible.

The Panel also notes that other IFAC standing committees with standards-setting responsibilities- the IAASB, Education Committee and Ethics Committee all have public members. The key objective in appointing public members to these committees is to increase public confidence and credibility in their standards, and to bring a broader perspective to the work of the committees. Although all committee members commit to act in the best interests of the public and with integrity in the discharge of their role within IFAC, the inclusion of public members reinforces IFAC's commitment to serving the overall interests of the public. Public members need not be members of IFAC member bodies. The Panel considers that there is a very strong case for the appointment of public members to the PSC. Such a development will emphasise that there is a genuine public interest in high quality public sector reporting. It will also allow appointments from constituencies such as national finance ministries that are not well represented on the PSC.

The Panel notes that the private not-for-profit sector is currently outside the scope of both the International Accounting Standards Board (IASB) and the PSC. The Panel considers that this leaves a significant gap in terms of the coverage of global financial reporting standards. The Panel also believes that many of the financial reporting issues facing the private not-for-profit sector overlap those facing the public sector. As a medium-term objective the Panel considers that the PSC should aim to include the private not-for-profit sector within its scope. The PSC should communicate such an aim to its constituents. The Panel notes that the inclusion of this sector will have significant consequential implications for a number of areas of the PSC's governance and operations, including the work programme, PSC composition and name. In the Panel's view it would not be appropriate for the PSC to take on such issues until the forward funding of the Standards Program is assured.

***The Panel recommends that:***

- ***The PSC's long-term objective should be for private sector and public sector financial reporting standards to converge where appropriate, whilst recognising the need for separate standards, or adaptations of private sector standards, on issues specific to, or of***

- particular significance to, the public sector*
- *The PSC should be brought within the scope of the Public Interest Oversight Board*
  - *The composition of the Public Interest Oversight Board should be modified to include members with expertise in public sector financial reporting*
  - *The PSC's terms of reference should be modified to include the appointment of public members who need not be members of IFAC member bodies*
  - *The PSC should adopt and communicate a medium term aim of including the private not-for-profit sector within its scope*

**(h) Nomination and Rotation Policy**

Nominations to the PSC are made by IFAC member bodies. The individuals nominated are committed to the mission of IFAC, being the development and enhancement of the accounting profession to enable it to provide services of consistently high quality in the public interest. Appointments are made by the IFAC Board on the recommendation of the Nominating Committee. As part of the Reform Process nominations to IFAC committees under the purview of the PIOB are subject to approval by the PIOB.

PSC members are appointed to the PSC for an initial term of three years. They may be reappointed for a further three-year term. The Chair can be reappointed for a further three-year term beyond the first reappointment. Currently the PSC has 15 members. Further details of the current membership are provided in section (m) on PSC size and representation.

The Panel has some reservations about the transparency of the nominating process and, in particular, whether the Nominating Committee are aware of the mix of skills necessary for a standard-setting body. Questionnaire respondents were also divided on this issue with only a small majority favouring the maintenance of the existing nominating approach. The Panel also considers that the Nominating Committee should continue to consult with the Chairman of the PSC over new appointments and replacements.

- The Panel recommends that:*
- *The IFAC Nominating Committee should be aware that the standards-setting focus of the PSC needs to be taken into account in making nominations for the PSC to the IFAC Board and should continue to consult with the Chairman of the PSC over new appointments and replacements*

**(i) Renaming the PSC**

The Panel noted that the International Auditing Practices Committee had been renamed as the International Auditing and Assurance Standards Board in 2002 and that this had helped reinforce the IAASB's responsibility for standards-setting and guidance for assurance engagements as well as reporting on

historical financial information. Whilst survey respondents were almost evenly split on this issue with a very small majority favouring retention of the PSC brand, the Panel was influenced by the IAASB precedent. Accordingly, consistent with the Panel's recommendation that the PSC's mandate should be amended to reflect its primary standard-setting focus, the Panel considers that a change of name is therefore appropriate and that the name *International Public Sector Accounting Standards Board* is most suitable

***The Panel recommends that;***

- ***The PSC seeks IFAC Board approval to rename itself the International Public Sector Accounting Standards Board***

**(j) Creation of a Full-time or Part-time Chair Post**

The PSC Chair, Vice-Chair, members and technical advisers are volunteers and provide their time on PSC activities free of charge, with the support of IFAC member bodies, employers or through their own efforts.

The demands on the PSC Chair have increased significantly over the last few years, with particular emphasis on funding and promotional work. Such demands are likely to increase over the foreseeable future. This has been recognised by the IFAC Board when they made a decision to appoint a Vice-Chair in November 2003, the first time such a post had been formally created. In principle the Panel thinks that there is a strong case for making the Chair post full time and remunerated. It notes that a large majority of questionnaire respondents (over 73%) favoured a full time remunerated Chair post. However, recognising the financial challenges facing the PSC, the Panel does not at this time think that moving to a full or part time remunerated Chair's post is appropriate. A full-time Chair could contribute to the technical capability of the Committee. However, available funding should be prioritised for retaining current staff levels and, initially, any further funding injections should be directed at increasing staffing resources.

***The Panel recommends that:***

- ***Whilst it would be desirable to make the Chair's position a full-time or part-time remunerated one, this should not be done until there is an adequate budget***
- ***Available funding should be prioritised for retaining current staff levels and, initially, any further funding injections should be directed at increasing staffing resources***

**(k) Number of Meetings**

Since 2001 the PSC has met three times a year. Meetings normally last three days. The Panel notes with approval that PSC Meetings are now open to the public. Notwithstanding the fact that an increase in the number of meetings will also lead to an increase in the call on the resources of individual members and IFAC member bodies the Panel has some reservations whether the current

length of or, alternatively, the frequency of meetings is sufficient to enable the PSC to discharge its responsibilities. The PSC is likely to have to react to a very busy IASB programme over the next few years.

From the mid to late 1990s the PSC held four meetings a year. This was reduced to 3 meetings a year in 2000, but these were supplemented by further meetings of the Standards Sub-Committee, which oversaw development work on IPSASs prior to their reporting to full Committee. As well as meeting in conjunction with full PSC meetings the Standards Sub-Committee also met twice a year separately from the full Committee. This arrangement meant that a considerable amount of development work on core standards could be carried out before the full Committee considered them.

The Panel notes that, during meetings, the PSC is under increasing and understandable pressure from host members and regional accounting bodies to participate in seminars. Such seminars present an important opportunity to promote the outputs from the Project and it is clearly important that the PSC responds to such requests. In addition the regional meetings of the Consultative Group, which are a recent addition to the agendas of PSC meetings, are another call on available meeting time. Indeed, recent experience suggests that the time devoted to the Consultative Group may have to be increased if the Consultative Group is to function effectively (we discuss the Consultative Group at section (q)). Participation in regional seminar and Consultative Group meetings inevitably limits the time available for substantive discussion at meetings. If the PSC is to discharge its role as a viable standard-setter the length of meetings or number of meetings needs to be increased.

Currently the IFAC Board has a policy that 50% of the meetings of its standing committees should be in New York. The Board is prepared to vary this policy if committees have sound reasons for holding a higher proportion of meetings outside New York. The Panel recognises that the Board was flexible over PSC meeting locations in 2003 and 2004. The Panel considers that it is important that PSC meetings are used to link with key constituents. Many of these constituents are in developing and transition nations, particularly jurisdictions which are enhancing the quality of their cash based reporting or are embarking on the migration to accrual reporting. The Panel therefore believes that the policy on New York meetings should not be applied to the PSC.

***The Panel recommends that:***

- ***The PSC lengthen the duration of meetings or increases the number of meetings to 4 times a year***
- ***The IFAC Board should exclude the PSC from the requirement that 50% of meetings should be held in New York***

**(l) Interpretations Committee**

The Panel noted the views of a majority of survey respondents (just over 58%) that the PSC should establish an Interpretations Committee to review emerging issues not specifically addressed in IPSASs or issues where unsatisfactory or conflicting interpretations have emerged.

The logic for the creation of such a Committee is sound. However, the development and ongoing maintenance of an Interpretations Committee would be highly resource intensive. For this reason the Panel does not think that an Interpretations Committee should be established at this time.

***The Panel recommends that:***

- ***At this time the PSC should not establish an interpretations committee***

**(m) PSC Size and Geographical Representation**

Currently the PSC has 15 members from the following regions:

- Africa 1
- Asia 3
- Central America 1
- Europe 5
- North America 2
- Oceania 2
- South America 1

The Panel considers that the current size of the Committee is appropriate. However, it is at the maximum level for a standards-setting body and any further increase in the overall size of the Committee risks a reduction in efficiency. The Panel also noted that, as well as technical advisers, observers to the PSC have full rights of the floor.

It is important that individuals with the mix of experience and skills appropriate for a standards-setting Committee are appointed to the PSC and this criterion needs to be borne in mind when selecting PSC members. The Panel does not favour strict geographical proportionality in the composition of the PSC and emphasises that a standard-setting Committee needs members with appropriate competences. However, at present there is a stark geographical imbalance with Africa and South America underrepresented and Europe and, arguably, Oceania over-represented. There has been a particular problem in reaching francophone Africa. A small majority of respondents favoured the current composition, but this is largely due to the heavy European response (although a sizeable minority of European respondents registered dissatisfaction with the current composition).

In the longer term, members should be chosen for their expertise and skills, rather than for reasons of geography. However, at present, a wide span of geographical representation is thought to be necessary to promote support from all regions of the world. It is important that a global standards-setter is not perceived to be dominated by particular geographical regions.

The Panel also notes that there is an obvious gender imbalance on the Committee. At present there are only two female members of the Committee, although there is a number of female technical advisers and observers.

Currently each member is allowed two technical advisers. Member bodies are responsible for the travel and hotel costs of technical advisers. Technical advisers have full rights to speak at meetings, although they are not allowed to vote. A number of IFAC committees have introduced a limit of one technical adviser per member and the Panel considers that such a limit is appropriate for the PSC.

***The Panel recommends that:***

- ***The IFAC Nominating Committee address geographical and gender imbalances in the composition of the PSC, as well as the need for substantive developing nation participation, whilst recognising the competences required for membership***
- ***A limit of one technical adviser per member be introduced for the PSC***

**(n) Due Process**

The current terms of reference do not prescribe minimum consultation periods. Currently the PSC adopts a due process for its exposure drafts and invitations to comment, which includes consultation periods of at least 4 months. In some cases, where the subjects of EDs and ITCs have been complex, such as the recent ITCs on *Accounting for Non-Exchange Revenue* and *Accounting for the Social Policies of Government*, exposure periods have been significantly longer than four months. Survey respondents were highly supportive of the PSC's current consultation arrangements. Just under 90% were satisfied with current arrangements.

A consultation period needs to balance the opportunity for respondents to have time to adequately evaluate proposals and frame responses with the timely progression of projects. Panel considers that current exposure periods are appropriate in the light of the fact that EDs and ITCs are only available in English and that a minimum period of 4 months should be formally recognised in the terms of reference.

***The Panel recommends that:***

- ***The PSC retain its current provisions for due process with consultation periods of a minimum 4 months and that the terms of reference are amended to reflect such a requirement***



**(o) Approval arrangements**

Currently, the PSC approval arrangements require a positive vote of two-thirds of the members present for exposure drafts and invitations to comment. A positive vote of three-quarters of the members present is required for full pronouncements. A quorum of nine members is required for a vote to be held. The Panel notes that a vote on a Standards Program pronouncement has never had to be deferred due to the lack of a quorum. Currently the PSC does not have formal provision for proxy voting. The Panel considers that the PSC's terms of reference should include formal provisions in relation to proxy voting.

The terms of reference of IFAC's standard-setting committees within the scope of the Public Interest Oversight Board (PIOB) have recently been evaluated as part of a more general revision of their governance. Both the Education Committee and IAASB are proposing requirements that two-thirds of members present must vote affirmatively for a pronouncement to be approved. In addition both the Education Committee and the IAASB provisions stipulate that an affirmative vote must not be less than two-thirds of the voting rights of the Committee.

Whilst the Panel noted that questionnaire respondents were highly supportive of the current approval arrangements (around 90% were satisfied with the current arrangements) the Panel considers that there should be a common framework for IFAC standard-setting committees and that the PSC should adopt two-thirds approval requirements for both exposure drafts and standards, subject to a stipulation that an affirmative vote must comprise at least two-thirds of the voting rights. At present this would require an affirmative vote of at least 10 members.

***The Panel recommends that:***

- ***The PSC's terms of reference should be amended to include formal provisions on proxy voting***
- ***The PSC's terms of reference should be amended to include approval requirements of two-thirds of members present for exposure drafts, invitations to comment and pronouncements, subject to an affirmative vote of at least two-thirds of the voting rights in the PSC***

**(p) Observer Status**

Currently there are nine observers to the PSC. These represent funders and other key constituents. Observers do not have voting rights, but they have full rights of the floor. At present the current composition of the observer category is:

- The World Bank
- International Monetary Fund (IMF)

- Asian Development Bank (ADB)
- United Nations (UN)
- United Nations Development Program (UNDP)
- European Union (EU)
- Organisation of Economic Co-operation and Development (OECD)
- International Organisation of Supreme Audit Institutions (INTOSAI)
- IASB.

There is no formal policy on the appointment of observers and no “sunset provisions” whereby observer status expires after a pre-determined period. The granting of observer status has been left to the discretion of the Chair.

In the light of the re-launch of the Consultative Group (see below section (q)) the Panel considered whether the retention of observer status is necessary, whether the number of observers should be reduced and whether observer status should be linked to funding. The Panel concluded that there is no pressing reason to modify the current approach to observers. In particular the Panel was mindful of a firm view from questionnaire respondents (around 75%) that observer status should not be linked to funding. However, the granting and monitoring of observer status should be actively managed and the Panel therefore considers that the PSC should review the current composition and role of observers as a standing agenda item on an annual basis.

***The Panel recommends that:***

- ***There be no change to the current approach to the appointment of observers***
- ***The PSC reviews the current composition and role of observers as a standing agenda item annually***

**(q) Role and operation of the Consultative Group**

For a number of years the PSC’s small Consultative Group, was in abeyance. In 2003 the PSC launched a larger and global Consultative Group organised on regional lines. Currently this consists of around 60 members. A diverse range of interests is represented on the Consultative Group including audit bodies, national finance ministries and regional accountancy bodies. As at the date of this report the Consultative Group had met three times on a regional basis, in Vancouver and Berlin in 2003 and Buenos Aires in 2004.

The Panel considers that the restructured Consultative Group is an important addition to the PSC’s communication and agenda setting processes and has no doubt that the Consultative Group should be retained. Over 90% of questionnaire respondents favoured retention of the Consultative Group. The Consultative Group also offers an important promotional opportunity, particularly in jurisdictions, which are not directly represented on the PSC. However, it is questionable whether, currently, the role of the Consultative Group is clear. It seems uncertain whether the primary purpose of the Group is to influence the forward agenda of the PSC, to act as a sounding board for

particular issues or to provide information on financial reporting developments in particular countries and regions. There is a need for regional meetings with the Group to be better structured.

The Panel notes that a Chair is due to be appointed to the IAASB's Consultative Advisory Group. For logistical and cost reasons the Panel does not think it appropriate for the PSC to appoint a Chair for the whole Consultative Group. However, a greater focus to the Consultative Group might be achieved by appointing a number of Regional Chairs. The Regional Chair would be invited to attend the whole of the PSC proceedings when the PSC meets in his/her geographical region. It would be the responsibility of the Regional Chair to agree an agenda with the Chair of the PSC and to allocate responsibilities within the Consultative Group. The global nature of the Consultative Group also means that electronic working is essential if the potential of the Group is to be realised. In the view of the Panel electronic working has not been progressed sufficiently.

The PSC needs to align electronic working with a more focused effort to identify areas on which it particularly wants a view from the Consultative Group.

***The Panel recommends that the PSC:***

- ***Continues to maintain a Consultative Group***
- ***Clarify the role of the Consultative Group***
- ***Takes steps to appoint a set of Regional Chairs for the Consultative Group***
- ***Places more emphasis on electronic working with the Group***
- ***Targets issues on which it particularly seeks a view from the Group***

## 7 TRANSLATION

The PSC has recognised the importance of translating its pronouncements into languages other than English and has identified the following as key languages: French, Spanish, Chinese, Russian and Arabic. In order to meet this objective in relation to French and Spanish the PSC entered into an agreement with the IASC Foundation in 2002 to translate IPSASs into French and Spanish. Whilst this agreement has had some initial problems it appears to be close to producing tangible results with translations of the first raft of IPSASs complete or substantially complete. The Panel supports this agreement and considers that it should be maintained. The Panel also notes that IFAC member bodies, academics and other organisations have initiated unofficial translations of IPSASs and other pronouncements into a number of other languages.

Optimally EDs and ITCs should also be translated into key languages. The Panel accepts that the availability of EDs and ITCs only in English undoubtedly limits the responses from jurisdictions whether English is not the native language and imposes costs on constituents in such jurisdictions. However, the cost and length of time it would take to develop high quality translations allied to the resource necessary to

translate responses means that, unfortunately, it is not currently feasible to adopt a policy of translating EDs and ITCs.

***The Panel recommends that:***

- ***The PSC maintains its arrangement with the IASC Foundation for the translation of pronouncements into Spanish and French***
- ***Despite the benefits which would undoubtedly arise the PSC does not have the resources at this stage to translate EDs and ITCs into languages other than English***

## 8 BUDGET

Currently the PSC's budget comprises two components. The first component is supported by funding from external stakeholders and supports the salaries and travel costs of staff currently based in Melbourne, external consultants-such as those involved with the development assistance and budget reporting projects currently underway-, the travel costs of the Chair, other than to PSC meetings, and printing and distribution costs. The 2004 projection for this component is just under \$980,000. As this is based on an assumption that staff will be based in New York for the second part of 2004 the outturn is likely to be well below this figure.

The second budgetary component is the Central Secretariat Support Budget. This comprises supporting the New York based Secretariat member, other staff allocations, meeting and printing costs. The 2004 projection is currently just over US \$350,000.

It should be noted that the current IFAC Budget significantly understates inputs to the programme, as it does not include the attendance time or travel of IFAC members and technical advisers. Based on notional inputs reflecting the opportunity cost of attending meetings and out-of pocket expenses an estimate of the value of such input is around \$1,600,000. As noted above, the PSC also gets support in terms of time and staff resources from Steering Committee members and work undertaken by partners, notably from a number of national Treasuries/Ministries of Finance.

The Panel considers that the PSC should make greater use of New York based staff to carry out technical work.

***The Panel recommends that:***

- ***The PSC make greater use of New York based staff to carry out technical work***

## 9 STAFF LOCATION

Since the project was initiated the core Staff attached to the project and funded by external stakeholders have been based in Wellington and latterly in Melbourne, with the exception of the IFAC secretariat member directly funded by IFAC, who is based in New York. The reason for this has been that the two most recent Chairs of the Committee have been based in New Zealand and Australia and many staff were recruited from those countries. Although the position is obviously dependent on

exchange rate volatility; Melbourne is considerably less expensive than cities like New York, London and Paris for staff, office accommodation and printing costs. The obvious disbenefit is that staff are a long way from their colleagues in IFAC Headquarters in New York, the current Chair in Paris and most major stakeholders such as the World Bank and International Monetary Fund (Washington) and the IASB (London).

The Panel is not convinced of the rationale for relocating currently Melbourne based staff to New York. The Panel considers that any decision on staff relocation should be deferred until there is firmer assurance that the medium-term financial position of the programme has been secured.

***The Panel recommends that:***

- ***No decision to relocate staff is made until the medium term financial position of the Standards Program is clearer***

## PSC EXTERNAL REVIEW – TERMS OF REFERENCE (TOR)

### OBJECTIVES OF REVIEW

#### Overall Objective

To make recommendations on the strategies to achieve PSC objectives in the long term, noting any specific strategic initiatives/developments that should be implemented in the short term, medium term and long term (1, 5 and 5+ years)

#### Component Objectives

- (i) To assess and make recommendations on whether the PSC's standards setting activities should continue to be supported.
- (ii) To assess the appropriateness of the PSC's current objectives, mandate, governance arrangements, operating procedures and relationships with key stakeholders.
- (iii) To assess the PSC's achievement of these objectives and the discharge of its mandate..
- (iv) To make recommendations on whether, and if necessary how, the PSC's objectives, mandate, governance arrangements and key stakeholder relationships should change and develop, and the resources necessary to support its ongoing activities.
- (v) To assess the responsiveness the PSC's work program to its existing and proposed objectives.
- (vi) To identify any extraneous factors (changes in underlying assumptions) that would/could influence the Review Panel's recommendations going forward.
- (vii) To evaluate approaches for measuring the success of the Committee's standards setting and other agreed activities over defined periods.

#### *Factors to consider in framing the objectives of the review*

The needs of parties interested in issues of financial reporting and financial management in the public sector.

The current profile of the PSC and its IPSASs.

The objectives of IAPC review and IASB strategic review.

The information needed by potential external funders, to assist them in making funding support decisions.

## NATURE OF REVIEW

The review is to be undertaken by a panel chaired by a person external to the IFAC–PSC and comprising membership from IFAC and from key constituencies.

The “clients” are those with a valid interest in enhancing and strengthening financial reporting and financial management by governments and other public sector entities, including IFAC, governments and their agencies, national and international aid and similar agencies, national and international standards setters and similar organizations (including accounting and statistical basis standards setters), and other potential stakeholders and external funders of the PSC’s activities.

## PANEL COMPOSITION

- (1) Chair: Sir Andrew Likierman
- (2) Ian Ball: IFAC (representing IFAC)
- (3) Ian Mackintosh: Retiring PSC Chair
- (4) Philippe Adhémar: Incoming PSC Chair
- (5) Simon Bradbury: World Bank (representing external funders)
- (6) Tom Allen: Chairman US Governmental Accounting Standards Board:
- (7) Blandina Nyoni: Accountant-General of Tanzania

## REPORTING THE RESULTS OF THE REVIEW

The Review will be reported to the IFAC Board and made available to the PSC. The Board will be responsible for making decisions on the future of the PSC.

## STAFF SUPPORT

- John Stanford, Panel Secretary
- Jerry Gutu, Staff Support from IFAC Secretariat
- David Loweth, Assistant to Sir Andrew Likierman
- David Bean, Assistant to Tom Allen

**QUESTIONNAIRE ON ROLE, GOVERNANCE AND ORGANISATION OF IFAC PSC**