

The Co-Chairs,
International Public Sector Accounting Standards
Board Governance Review Group,
c/o OECD
2, rue André Pascal
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By email only: IPSASB@oecd.org

30 April 2014

Dear Co-Chairs:

The Future Governance of the International Public Sector Accounting Standards Board

Deloitte Touche Tohmatsu Limited is pleased to respond to the IPSASB Governance Review Group's public consultation: *The Future Governance of the International Public Sector Accounting Standards Board* (the Consultation). We commend the members of the Review Group for undertaking this review and for the opportunity to comment on this topic, which is increasingly important as the recent euro-area sovereign debt crisis demonstrated.

We note that the recent sovereign debt crisis underscored the importance of comprehensive, reliable, and timely financial reporting by governments to global economic and financial stability, and that significant inconsistencies in financial reporting practices in the public sector were identified during the crisis. We support the ongoing work of the IPSASB to establish high quality accounting standards for the public sector, which we see as critical to bringing about a desirable change in fiscal transparency.

Although we comment on all questions raised in the Consultation in the Appendix, we wish to highlight the following matters:

- We support bringing the International Public Sector Accounting Standards Board within the governance framework of the International Financial Reporting Standards Foundation. In our view, the oversight and monitoring provided by the IFRSF Trustees and Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting.

- Bringing IPSASB within the governance framework of the IFRS Foundation would reduce the overall cost of international accounting standard-setting. It would also allow both private- and public-sector standard-setters to follow the same due process, which is the best guarantee that International Public Sector Accounting Standards will be of high-quality, promote transparency and improve accountability of governments.
- A single oversight and monitoring framework would mean that the scope of private- and public-sector financial reporting standards would be set by the same body, thus ensuring that there would be consistency about which standards apply to any given reporting entity. We are concerned that some public sector items, liabilities in particular, are not reported in any balance sheet.
- We think that the IFRS Foundation Trustees would be able to provide appropriate oversight of the work of the IPSASB, given that at least half of the Trustees have public sector or public policy experience. We acknowledge that it will be necessary for the IFRS Foundation to follow its own due process to amend its Constitution, oversight and monitoring arrangements to achieve this function.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely



Frans Van Schaik
Global Leader
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Veronica Poole
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cc: Michel Prada, IFRS Foundation

Appendix

Question 1: Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favour:

- a. Monitoring and oversight of the IPSASB by the IFRS Foundation's Monitoring Board and Trustees?*
- b. Separate monitoring and oversight boards for the IPSASB, while it remains under the auspices of the IFAC?*
- c. Re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies?*
- d. Another approach, including some combination or sequenced implementation (e.g., short-term/long-term approaches) of the above options? If so, please describe.*

We agree that it is desirable to strengthen the governance of the IPSASB including making improvements that reflect recent developments and emerging best practice in similar standard-setting situations. Although we evaluate all the options provided in the Consultation, we think that Option A should be the objective, acknowledging that this option requires time and further due process before it can be put into effect. In the meantime, IFAC may wish to consider implementing some aspects of Option B.

Bringing IPSASB under the monitoring and oversight functions of the IFRS Foundation

We support bringing the IPSASB within the governance framework of the International Financial Reporting Standards Foundation. In our view, the oversight and monitoring provided by the IFRS Foundation Trustees and the IFRSF Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting and strengthen the IPSASB's independence. We note that private and public sector standard-setters are overseen by the same oversight bodies in other jurisdictions, including Australia, Canada and the United States.

At present, the IFRS Foundation's primary objective, as set out in its Constitution and reaffirmed during the 2010-12 Strategy Review, is to develop a single set of high quality globally accepted financial reporting standards that should serve investors, other participants in the world's capital markets and other users of financial information in making informed resource allocation and other economic decisions.

As part of the 2010-2012 Strategy Review, the IFRS Foundation Trustees asked whether the focus on private-sector market participants remained appropriate. At that time, a majority of respondents to that consultation (including Deloitte) supported the view that the primary focus should remain on standards for private sector entities. Consequently, the IFRS Foundation Trustees concluded that: "In the short term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for for-profit corporate entities (i.e., publicly traded entities, other public interest entities, SMEs)."

We think that it is appropriate to revisit this matter. In our view, the IFRS Foundation Trustees would be able to provide appropriate oversight of the work of the IPSASB, given that at least half of the Trustees have public sector/ public policy experience. As such, we think that the Trustees already possess a broad understanding of the needs of users of public sector accounts. Any actual or perceived deficiencies could be addressed as new Trustees are appointed.

We acknowledge that it would be necessary for the IFRS Foundation to follow its own due process to amend its Constitution, oversight and monitoring arrangements to bring the IPSASB within its governance

arrangements. We note that the IFRS Foundation has announced a Strategic and Operational Review that will commence in 2015, which would give the IFRS Foundation Trustees an opportunity to begin this discussion.

We also acknowledge that the IFRSF Monitoring Board would need to determine whether and, if so, how its membership and remit might need to be amended. However, the Monitoring Board already represents the public interest (the members being primarily public authorities), and capital markets under their supervision are accessed by governments and other public sector entities. Consequently, we do not think that these issues are insurmountable.

More problematic might be funding expanded operations of the IFRS Foundation, if it is to address public sector standard-setting. The IFRS Foundation has struggled to establish a stable, independent funding base for its current private sector activities: adding public sector responsibilities could strain the funding challenges still further. Any involvement of IFAC Member Bodies in funding the IPSASB would likely be as contentious as it was when the IASC was being restructured in 1998-2000, and would need to be severed if the IPSASB were to be held to the same standards of independence as the IASB. Bringing both private and public sector financial reporting standard-setting under the same governance framework, with a common due process and probable synergies in staff resources, would mean that the incremental increase in financial resources would not be as significant as they would be if the IPSASB were to be established as a separate standard-setter.

Establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies

In our view, attempting to establish the IPSASB as a separate standard-setter with its own governance and monitoring structure, including establishing a stable funding platform for these activities would be challenging at present and sub-optimal in the long run.

The situation facing the IPSASB in 2014 is quite different from that which existed when the IASC restructured in 1999-2001, when there was a high degree of support for re-establishing the IASC as an independent private sector standard-setter. That restructuring was undertaken in the context of a globally-based consensus among jurisdictions (including Australia, Canada, the EU, Japan and the U.S. in particular) and other key stakeholders as to the goal, although views differed about structures and governance. We do not see sufficient evidence of an equivalent consensus among jurisdictions and international institutions and the willingness to provide adequate funding to make this option viable.

IPSASB remains under the auspices of the IFAC, but with separate monitoring and oversight boards

We see this option as a short-term solution, while the IFRS Foundation and the IFRSF Monitoring Board undertake the necessary due process to bring the IPSASB within its governance framework. It would allow the standard-setting activities of the IPSASB to continue and would permit the existing funding arrangements to remain in place, while allowing for improvements in oversight.

In particular, we would support establishing a Consultative Advisory Group (CAG) for the IPSASB, similar to the CAG of other IFAC standard-setting boards, to provide both advice on technical issues and on IPSASB's work program and project priorities, and more strategic matters. The initial membership of the CAG might include IPSASB's current Observers.

Question 2: Do you agree with the proposed remit for the IPSASB monitoring and oversight body(ies) in section IV, paragraph A? Are there other issues that should be addressed?

We support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation. We agree that an issue to be considered in doing so would be the role of governments in the public sector standard setting process, whilst preserving the independence of the IPSASB. In our view, the oversight and monitoring provided by the IFRSF Trustees and Monitoring Board would mitigate the threat of the politicisation of public sector accounting standard-setting.

However, if it is decided that Option 2 or 3 should be followed, and as we explain in more detail in our responses to Questions 3 and 4, below, we are not convinced that a separate monitoring body is necessary.

Question 3: Do you agree with the proposed composition of the IPSASB monitoring body in section IV, paragraph B? Are there any other institutions or stakeholders who should be represented?

As noted above, we support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation.

However, if it is decided that Option 2 or 3 should be followed, we are not convinced that a monitoring body is required. In the IFRS Foundation and Public Interest Oversight Board models, the monitoring body provides a link between private sector 'overseers' and public authorities responsible for the regulation of the securities markets in which the standards are used. This link is necessary, given that the IFRS Foundation and PIOB oversee standard setters operating in and for the private sector but acting in the public interest. If the IPSASB is established as a stand-alone independent standard-setter, it should be overseen by representatives of the public sector, since the standards they produce would be used by the public sector. As such, we think that the composition of the monitoring group would be drawn from the same pool of agencies and institutions that we would expect to provide members for the oversight body.

Question 4: Do you agree with the proposed composition of the IPSASB oversight body in section IV, paragraph B? In addition to the public sector background, are there any other competencies, interests, or stakeholders who should be represented?

As noted above, we support bringing the IPSASB within the monitoring and oversight framework of the IFRS Foundation.

However, if it is decided that Option 2 or 3 should be followed, we think that the IPSASB oversight body, which we see as functioning in a similar manner to the IFRS Foundation Trustees and the PIOB Trustees, would have responsibility for funding, governance and oversight of the standard-setter. Members should be drawn from the agencies and institutions identified in Section IV paragraph B.

We agree that candidates for the oversight body should be highly familiar with public sector financial reporting and managing accountability to Parliaments and international agencies.

We disagree with the qualifications proposed for candidates of the oversight body (“individuals who have both an appropriate technical competence in the accounting and financial reporting area, as well as recognized experience in the public sector”). We see such qualifications, when combined with the Consultation’s observation that such people might be “accounting standard setters, preparers of financial reporting, public practice professionals, and academics” as more appropriate for the standard-setter itself rather than the oversight body. In our view, the oversight body should have a more rounded public sector background, and reflect experience at very senior levels (CEO-equivalent) in central and local government and in publicly-funded agencies.

Question 5: Are there any other aspects related to the governance of the IPSASB which you believe the Review Group should consider before presenting its final recommendations? If so, please describe.

None not addressed elsewhere in this response.