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Financial Reporting Council

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The International Public Sector Accounting Standards Board Governance Review Group

The Future Governance of the International Public Sector Accounting Standards Board (IPSASB);
Public Consultation, January 2014

Dear Ladies and Gentlemen

The Australian Financial Reporting Council (FRC) is pleased to make a submission to the IPSASB public consultation process.

The Financial Reporting Council is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The FRC 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. It is a statutory body under Part 12 of the Australian Securities and Investments Commission (ASIC) Act 2001. Members of the FRC include key stakeholders with both private and public sector expertise and a member of New Zealand's External Reporting Board. The Public Sector Committee of the FRC includes Members from State, Territory and the Australian Governments, as well as the Australian Accounting Standard Board (AASB). The AASB also has members especially selected for their public sector expertise.

Australia is committed to high standards in accounting and reporting and has established an international reputation in public sector accounting and reporting in particular.¹ We have supported efforts to further improve public sector accounting and reporting and to promote the broader adoption, at the international level, of transparent and consistent standards and practices. It is the FRC's view that sustained attention by international organisations is a key to enhancing public sector accounting and reporting.

Australia is also committed to sector neutrality in the development of accounting standards, while recognising the distinct issues that arise for the public sector. We apply International Financial Reporting Standard (IFRS) equivalents with limited modification for not-for-profit entities including public sector entities. In some cases, these modifications are based on International Public Sector Accounting Standard (IPSAS) requirements.

Without having formally adopted IPSASs, Australia has deliberately achieved a high degree of compliance with those standards. The standard-setting authorities in Australia, and a number of key stakeholders, remain highly involved with the development of IPSASs; a number of these organisations have actively promoted the use of IPSASs in a variety of countries, particularly in our region.

While it is clear that governments around the world face varying incentives in relation to their own financial reporting, the FRC supports the key observation made in the public consultation paper (p ii), that "concerns about the governance and oversight of the IPSASB are among the reasons cited by national authorities for not adopting IPSASs." To the extent that governance issues may themselves be a barrier to the further adoption of IPSASs, the FRC is therefore strongly supportive of the efforts of the International Public Sector Accounting Standards Board Governance Review Group in conducting the current consultations.

Background

The FRC notes that a previous round of public consultation on IPSASB governance was undertaken in 2012 through the International Federation of Accountants (IFAC). In that process, comments were sought about whether IPSASB monitoring and governance should be vested in the Monitoring Group, The Public Interest Oversight Board, or a new body within the auspices of IFAC. Within the limits of the options proposed, the FRC provided the following view:

"In respect of IPSASB oversight the FRC accepts the PIOB model in the shorter term for practical reasons. However, it is of the view that in the longer term a separate body be charged with IPSASB oversight, on the basis that this approach would maintain consistency and build on the framework and processes of other leading accounting standard setters, provide an oversight body each of whose members fully understands public sector issues, and therefore achieve a greater credibility with stakeholders. The FRC generally favours a model for the oversight body which is compatible with a goal of convergence between the IASB² and IPSASB."

¹ Key elements of Australia's approach to setting standards for the public sector and financial reporting for the public sector are described in separate documents on the FRC's website, at http://www.frc.gov.au/reports/other/public_sector.ppt; http://www.frc.gov.au/reports/other/AASB_role.ppt; and http://www.frc.gov.au/reports/other/sovereign_reporting.ppt.

² The International Accounting Standards Board

The FRC's comments on the current consultation paper are consistent with the underlying view we expressed in that earlier process. They are also consistent with the views of the AASB, in its submission to this review.

Question 1: FRC view on the governance model

The FRC agrees there are benefits to be derived from strengthening the monitoring and oversight of the IPSASB.

The FRC remains of the view that a model for the oversight and monitoring bodies which is compatible with a goal of convergence between the IASB and IPSASB is the most appropriate objective, and consequently supports Option 1 in the 2014 public consultation paper. The FRC agrees with the advantages of this approach set out on page 16 of the public consultation paper, namely that is the best means to support long-term convergence; access to the IFRS Foundation resources and skills; and, to manage costs.

The FRC notes that there are some practical challenges to implementing Option 1 in the shorter term. While every effort should be taken to minimise these obstacles, the FRC would support Option 2 as a transitional option, subject to continuing efforts to achieve the goals set out in Option 1.

We are of the view that the detailed implementation of a shorter-term approach should be structured in such a way that reduces the risk inherent in Option 2 and maximises the potential for eventually adopting Option 1. Examples of strategies relevant to this goal could include:

- cross membership arrangements, for example where a member of the IPSASB oversight and monitoring body was nominated to join the IFRS Foundation as a Trustee, or whereby the IFRS Foundation nominated one of their Trustees to join the IPSASB oversight and monitoring body;
- periodic joint or coincident meetings of IFRS Trustees and the IPSASB oversight and monitoring body to promote sharing of views and experience;
- moves to co-locate or even share the secretariat functions for the IFRS Trustees and the IPSASB oversight and monitoring body.

The FRC is providing these suggestions simply as illustrations of ways to encourage mutual cooperation between the IFRS Foundation and the IPSASB oversight and monitoring body. Any steps of this type would facilitate progress towards a single oversight and monitoring process across IASB and IPSASB.

The FRC also notes that the suggestions above would be consistent with the Memorandum of Understanding (MOU) signed by IFAC and IASB in November 2011 to enhance cooperation in developing private and public sector accounting standards.

The FRC does not favour the third option for monitoring and oversight presented – re-establishing IPSASB outside of IFAC with its own monitoring and oversight bodies. As noted in the consultation paper this would be more time consuming and more costly. Further, the FRC is of the view that while this may remove the perceived conflict of interest between IPSASB and IFAC, unless carefully constructed, it would not prevent the risk of a conflict of interest emerging in the future.

Questions 2-5

The FRC broadly agrees with the proposed remit for the IPSASB monitoring and oversight bodies included in the public consultation paper. We also broadly agree with the composition of the oversight and monitoring body, noting that on the grounds of cost we are in favour of a single body if governance Option 2 is implemented (that is, a separate body under the auspices of IFAC) pending consideration of Option 1 in future.

If you would like further information on this matter from the FRC, please contact the FRC Secretary, frsecretary@treasury.gov.au or + 61 2 6263 3144.

Yours faithfully

A handwritten signature in cursive script that reads "Lynn Wood".

Lynn Wood
Chairman
Financial Reporting Council