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The IPSASB Governance Review Group

Ladies and Gentlemen:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to your Consultative Paper relative to “The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)”. We are pleased that your Review Group has been established to address issues concerning the oversight of the IPSASB. Our Consortium has been disappointed that recent IPSASs only apply to the accrual IPSAS and does not recognize the Cash Basis IPSAS.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to our membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. We believe that the following should be considered during the IPSASB standard setting process:
 - a. Many countries do not have the capacity or software to implement the accrual IPSAS. Consequently, these countries implement Part 1 of the Cash Basis IPSAS until they develop their capacity to transition to the accrual IPSAS. As such, they prepare the two required financial statements (Budget to Actual Comparative Statement and Cash Receipts/Cash Payments Statement). As they transition to the accrual IPSAS, many countries will implement the options in Part 2 of the Cash Basis IPSAS prior to implementing the accrual IPSASs.

- b. As the developing countries attempt to implement the Cash Basis IPSAS, they encounter difficulties identifying their government entities and preparing whole-of-government financial statements. To assist the developing countries in their implementation of the IPSASs, our Consortium is currently field testing an *IPSAS Compilation Guide for Developing Countries* (see www.icgfm.org). This Guide has six stages that provide a structure for the developing countries to follow as they move from the Cash Basis IPSAS to adoption of full accrual accounting in accordance with the accrual IPSAS. Our Guide is being developed as a companion document to the *GFS Compilation Guide for Developing Countries* published by IMF in 2011.
 - c. The Cash Basis IPSAS is recognized as Generally Accepted Accounting Principles (GAAP) by those countries that have fully implemented Part 1. Thus, the Supreme Audit Office performs their financial audits of the financial statements in order to express an opinion on fair presentation.
 - d. The IPSASB appointed a task force to review the Cash Basis IPSAS for possible amendments and the task force made their recommendations in 2010. Since no action was being taken on the task force recommendations, our Consortium requested an audience with the IPSASB in 2012. Our request was granted for a meeting with the IPSASB in New York in December 2012 and our comments were well received. However, no action has been taken since that date to implement any of our recommendations.
 - e. When the IPSASB was originally established, a consultative group was appointed. However, to the best of our knowledge, this group has never been consulted on any matters pertinent to the Board's deliberations.
4. Relative to our thoughts above, our responses to the comments on the specific questions are as follows:
- a. **Question 1.** Do you agree there is a need to strengthen the monitoring and oversight of the IPSASB? If so, do you favor: 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. Reestablishing 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. **Response.** Agree. Our Committee believes there is a need for a fundamental reconsideration of the underlying assumptions as well as governance of the IPSASB. In our view the objective of harmonization of public and private sector reporting (IPSAS and IFRS) is fundamentally flawed. Public sector financial reporting is driven by the need to report in accordance with the UN SNA as interpreted in the IMF GFS Manual or (for Europe) ESA. Hence the objective of the IPSASB should be to develop financial reporting standards consistent with GFS that enable the preparation of auditable financial statements. The IFRS should be used to inform this process but it is simply not feasible to be consistent with both GFS and

- IFRS, and the former should take precedence. Using this approach we might begin to see implemented standards for public sector reporting. If the above objective is accepted then it follows that the major institutions involved - IMF, UN, EU - should have a major role in the governance of the IPSASB. These should support both professional accountants and other stakeholders. But such a restructuring is so radical only Option (c) is feasible. However, Option (b) would be our preference if the restructuring could be achieved since it is the most expedient and logical.
- b. **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? **Response.** Agree especially with the need for a Consultative Advisory Group. Such a Group is only productive if they are in fact consulted relative to issues being deliberated.
- c. **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? **Response.** Agree since it would permit organizations such as ours to be heard.
- d. **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? **Response.** Agree since it would permit highly qualified individual with a public financial management background in organizations such as ours to be heard.
- e. **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. **Response.** No other aspects suggested.
5. We appreciate the opportunity to comment on this CP and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,



ICGFM Accounting Standards Committee

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