30 April 2014

Dear International Public Sector Accounting Standards Board Governance Review Group

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

We appreciate the opportunity to comment on the International Public Sector Accounting Standards Board Governance Review Group’s (the ‘Review Group’) Public Consultation: The Future Governance of the International Public Sector Accounting Standards Board (IPSASB). We have consulted with, and this letter represents the views of, the KPMG network.

We applaud the efforts of the Review Group to develop alternative models for and seek consultation on the oversight of the IPSASB. As with any standard-setting body, the credibility of the IPSASB’s standards is closely tied to the public perception of the Board’s independence and objectivity in its standard-setting activities, and a critical aspect of ensuring that the Board carries out its standard-setting activities in an independent and objective fashion is the quality and effectiveness of its governance and oversight structure.

On balance, we favour Alternative 3 (re-establishing the IPSASB outside of IFAC with its own monitoring and oversight bodies) with the proviso that a new structure would have a close linkage with the IFRS Foundation. We recognise that the objectives of public sector entities can differ in certain significant respects from those of business entities and, accordingly, the specific financial reporting needs of those financial statement users can differ from those of business entities. However, we do not believe that those differences are so great as to justify a fundamentally different basis of accounting. In addition to certain differences in objectives, there can be certain differences in the constituencies of the IPSASB and the International Accounting Standards Board (IASB) (although we recognise that there is a significant degree of overlap between the two constituencies as well), which also underlies our support Alternative 3.

We recognise, however, that Alternative 3, while being the best approach to support the Board’s independence and provide an effective monitoring and oversight of the IPSASB, would also require significant efforts to put in place since it would require the creation and funding of a completely new organisation and infrastructure. While Alternative 3 remains our preference, we
do understand that there would be difficulties in finding appropriate and sustainable funding for a new governance and oversight organisation.

As we noted above, in our view there are important differences in objectives and constituencies of the IPSASB and IASB. However, there are many (perhaps far more) commonalities in objectives and constituencies. Therefore, in order to enhance the comparability of financial information provided by public sector entities with that of business entities, we favour a close linkage between the two groups (and their Boards) because we agree that the IPSASB should continue to seek to converge its standards with International Financial Reporting Standards (IFRS) to the extent possible. We favour Alternative 3 coupled with a close linkage between the two organisations over Alternative 1 (extending the scope of the IFRS Foundation’s MB and Trustees activities) because we are concerned that Alternative 1 could distract the IFRS Foundation and IASB from focusing on the information needs of capital providers to business entities and obtaining the funding needed to meet that commitment.

We recognise that establishing a “close linkage” between the IFRS Foundation and a new IPSASB Foundation is a bit unclear, but we note that the IASB has initiated efforts to establish a closer and more formal linkage with other key constituents recently (e.g., International Organization of Securities Commissions (IOSCO), International Valuation Standards Council (IVSC), National Standard Setters through Accounting Standards Advisory Forum (ASAF)). Accordingly, we believe it would be best for the new IPSASB Foundation/IPSASB and the IFRS Foundation/IASB to determine the form and parameters of the close linkage once a separate governance structure for the IPSASB is established.

With respect to Alternative 2 (establishing separate monitoring and oversight bodies for the IPSASB while it remains under the auspices of IFAC), we recognise that it is likely to be an easier structure to put in place than either Alternative 1 or 3, but we are concerned that it might be perceived by key constituents as having minimal substantive differences from the current situation and therefore those constituents might view this approach as maintaining the status quo. However, given the challenges noted above to implement Alternative 3, it may be necessary to pursue Alternative 2 as an interim step while the further steps needed to implement Alternative 3 (including securing appropriate and sustainable funding) are completed.

The appendix to this letter provides our responses to the specific questions raised by the Review Group.

Please contact Mark Vaessen +44 207 311 8471, Paul Munter at +1 212 909 5567 (pmunter@kpmg.com) or Archie Johnston at +1 604 527 3757 (agjohnston@kpmg.ca) if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited
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. 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.

As discussed in our covering letter, we agree there is a need to strengthen the monitoring and oversight of the IPSASB and to do so we favour Alternative 3 (or (c) above) for the reasons expressed therein and subject to our observations about the challenges to implementing this alternative. We have not identified any other viable approaches at this time.

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?

In general we agree with the proposed remit for the monitoring and oversight bodies. However, we are concerned with the meaning of “(ii) establish the standard setting strategy and governance arrangements”. We agree that the monitoring and oversight body should be responsible for the governance arrangements, including required due process steps, with respect to the IPSASB’s standard setting. However, we believe it should be clear that the IPSASB itself has full authority to establish its own agenda and the sole responsibility for the issuance of standards in accordance with due process procedures established by the monitoring and oversight body. We believe this should be made clear when the role of the monitoring and oversight body is articulated.

Additionally, we believe that the monitoring and oversight body will need to establish specific criteria, including technical competence, geographical representation, and background (i.e., preparer, users, auditor of public sector financial statements) of Board members.

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?

While the specific composition of the monitoring body may be influenced to a certain degree by the structural alternative chosen, we generally agree with the proposed composition of the monitoring 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?

While the specific composition of the oversight body may be influenced to a certain degree by the structural alternative chosen, we generally agree with the proposed composition of the oversight body. We do believe, however, that the interest of those who provide capital to public sector entities should be adequately represented on the oversight body.

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.

We have not identified any other issues at this time that the Review Group should consider.