



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 4 FEBRUARY 2005
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: PSC/IPSASB REVIEW – ACTION PLAN

ACTION REQUIRED

The Board is asked to:

- **note** the report on the status of actions for the adoption of the recommendations of the PSC Review Panel; and
- **review** the proposed policy re appointment of Observers and consider the potential addition of an observer.

AGENDA MATERIAL:

	Pages
13.2 Report on Action Plan status	13.3 – 13.14
13.3 Proposed Policy re IPSASB Observers	13.15 – 13.17
13.4 Letter from CIGAR re Observer status	13.18
13.5 IPSASB Interim Terms of Reference	13.19 – 13.28
13.6 Revised Preface and Introduction to IPSASs	13.29 – 13.37

BACKGROUND

Following the November 2004 PSC meeting, the PSC Chair attended the IFAC Board meeting to present the action plan as agreed at the PSC meeting. The Chair also updated the IFAC Board on the reservations the PSC had in respect of IPSASB funding and the proposals for proxy voting. It was noted that the IFAC Board intended standardizing the provisions for proxy voting across all Boards and Committees.

Included in Agenda materials for the last PSC meeting in November 2004 were drafts of the “Interim Terms of Reference for the International Public Sector Accounting Standards Board (IPSASB)” and Updated “Preface to IPSASs”.

These documents were approved by the PSC, subject to clarification of guidance on proxy voting. They were also approved by the IFAC Board, and are included here at items 13.5 and 13.6 for your information. However, please note, the IFAC Board is still to resolve the proxy voting issue. The interim Terms of Reference will be updated to reflect that clarification when made. (The Terms of Reference are identified as “interim” at this stage because the IPSASB has not yet been included under the oversight of the Public Interest Oversight Board (PIOB), as is intended.)

The Action Plan

The report on the Action Plan (Agenda item 13.2) identifies actions that have occurred and are occurring consequent to the recommendations of the Review Panel. It also identifies staff expectations on progress on items pending.

The Action Plan directs that the IPSASB should establish policies and criteria in respect of the appointment, and role and review of observers. Staff views on a proposed policy are included at Agenda item 13.3.

Additional IPSASB Observer

The Chair has received a request from the Chair of the CIGAR (Comparative International Governmental Accounting Research) network for observer status for a representative of academia (Agenda item 13.4) drawn from CIGAR membership. The Chair responded, noting there was merit in the proposal and it would be considered at this meeting.

Staff Views

Staff are of the view that inclusion of a representative from the academe could add a useful additional dimension to Board discussions. Observers fund their own attendance – as such, extension of the observer group to include academic representation would not have budgetary implications for the IPSASB. However, there are a number of issues to consider before agreeing to such:

- Whether the enlargement of the observer group is justified. The Review Committee did recommend that the Board not be enlarged. While observers are not members, they do have full rights of the floor and would increase the numbers “at the table”. Staff are of the view that the enlargement of the observer group by one can be justified within the context of the review of the composition and role of the observer group recommended by the Review Panel (see agenda item 13.3);
- The process for appointment. While an observer appointed from nominees of CIGAR would no doubt be most appropriate as the academic observer, there may well be other academic groups who would also wish to represent the academe as an observer on the IPSASB. Staff are of the view that if the IPSASB agrees to academic representation in its observer group, it should make public its decision and seek public expressions of interest;
- The expectations of the IPSASB on the role that such an appointee would undertake in respect of liaison with the academic community. Staff are of the view that the representative appointed should have affiliations with international academic organizations such as CIGAR, and should accept the responsibility to communicate/co-ordinate with other international academic organizations. The expectation would then be that the observer would establish a bridge between the IPSASB and academe and would actively communicate via papers and presentations the IPSASB program;
- Whether appointment of an observer from the academe has any implications for academic representation on the Consultative Group. Staff are of the view that it should not. The Consultative Group is still evolving. Representation of the academe in each region remains an important component of that Group. In addition, the Consultative Group already includes regional representation from other constituency groups included in the current observer group.
- Whether there are other constituency groups that could be appointed as an observer. Staff believe that there are a number of potential groups that could also be included as observers. For example, a representative of a government or international organization that is currently implementing, or planning to implement, IPSASs. However, the IPSASB has not yet had expressions of interest from such bodies for observer status. This may well be because their views are communicated to the Board through linkages with members and observers.

CURRENT STATUS OF ACTIONS FOR ADOPTION OF RECOMMENDATIONS OF THE “EXTERNALLY CHAIRED REVIEW PANEL ON THE GOVERNANCE, ROLE AND ORGANIZATION OF THE IFAC – PUBLIC SECTOR COMMITTEE”

BACKGROUND

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 standard-setting process. The Panel was chaired by Sir Andrew Likierman, then Head of the UK Government Accountancy Service of HM Treasury.

The purpose of the Review was 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.

Survey of Constituents

As part of the review process, the Review Panel issued a survey questionnaire seeking input on the need for a public sector standard-setter, on the PSC’s performance in performing that function and on key aspects of the PSC’s operating characteristics. There were 142 responses to the survey. There was strong support for the continuation of the standard-setting function and the PSC’s role.

IFAC BOARD AND PSC RESPONSE TO THE REPORT

The PSC and the IFAC Board received and discussed the Review Panel’s Report at meetings in New York in July 2004.

Sir Andrew attended the IFAC Board meeting and introduced the Report to the IFAC Board. Philippe Adhémar, the PSC Chair, was in attendance and responded on behalf of the PSC, which had discussed the Report at its own meeting earlier that week. Philippe noted that the PSC was of the view that the Report was comprehensive and balanced, and that the PSC supported most, but not all, of the recommendations. He outlined the areas that the PSC had concerns with and the Board discussed the Recommendations with Sir Andrew and Philippe.

The Board accepted all the Recommendations of the Review Panel except for revisions to the recommendation on conceptual framework to acknowledge the PSC’s concern that a public sector framework should be developed, and the recommendation that the PSC not be required to hold one meeting a year in New York.

The Board directed that the PSC Chair and PSC Technical Director prepare an action plan for implementing the Panel’s Recommendations for presentation at the next Board meeting in November 2004.

ACTION PLAN

The PSC Chair and Technical Director prepared an Action Plan which dealt with each recommendation made by the Review Panel, and the Board’s decision thereon. The Action Plan identified consequential action points. This Action Plan was considered by the PSC at its November 2004 meeting together with:

- draft Interim Terms of Reference for the International Public Sector Accounting Standards Board (IPSASB); and
- a draft updated Preface and Introduction to IPSASs.

At that meeting the PSC reviewed and noted its support for the materials presented, but expressed concern about its ability to service all components of the work plan given its current resource constraints. The PSC also identified the need for additional support from IFAC in respect of fund raising activities and concerns that the funding target group should be broadened. The PSC also noted that the interim Terms of Reference should clarify the meaning of “proxy voting” by identifying that a member may authorize his/her technical advisor or, in the absence of the technical advisor, the Chair to vote on behalf of the member if the member is absent.

The Action Plan and draft interim Terms of Reference and Preface were forwarded to the IFAC Board for approval at its forthcoming meeting in November. The PSC Chair attended the November 2004 meeting of the IFAC Board and noted the PSC’s support for the action plan subject to the concerns identified above. He also emphasized strongly the need for additional resources to enable the PSC to pursue its work plan.

The actions that have occurred to date in respect of the Action Plan are noted below. They identify the recommendations of the Review Panel, the action points agreed and follow up action.

CURRENT STATUS OF ADOPTION OF REVIEW PANEL RECOMMENDATIONS

Review Panel Recommendation (a) Need for an independent global standard-setter for the public sector and fund raising activities

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 reporting, multi-lateral and bi-lateral donors and other financial statement users including credit-rating agencies*

Action and Time Frame:

- PSC Chair and Technical Director to develop a funding proposal. Proposal to be reviewed by IFAC Chief Executive in September 2004 and be available for consideration by the Board in November 2004.

Current Status February 2005: Funding proposal prepared. Available for IFAC Board for November 2004 and subsequently updated.

- IFAC President, Chief Executive and other officers to raise PSC funding with key international organizations – effective immediately as opportunities arise.

Current Status February 2005: Ongoing. Developments include proposals for discussion of consortium/trust fund approach.

- Board members to raise funding for PSC with key organizations in their jurisdictions. Members will raise funding issue as opportunity arises and note that funding proposal is being developed – effective immediately. Follow up with key contacts when funding proposal finalized post November 2004 Board meeting.

Current Status February 2005: Ongoing. Recommendation noted at IFAC Board. Staff to seek update on actions of Board members.

- PSC Chair, Deputy Chair and Technical Director to liaise with IFAC President and Chief Executive to co-ordinate fund raising activities originating from PSC and PSC members with IFAC Board funding initiatives – ongoing.

Current Status February 2005: In progress. Discussions including current and immediate past president, IFAC Chief Executive, World Bank Observer, Chair of TFHPSA and others – ongoing.

- Funding planning meeting to occur following Council meeting November 2004 and include immediate past and new IFAC President, PSC Chair and IFAC Chief Executive. That meeting to include consideration of whether a professional fund raiser should be employed by IFAC/PSC, key funding actions and responsibilities and the role of the PSC and its members. Subject to discussion at this meeting, PSC Chair to establish PSC funding subcommittee in early 2005 to support implementation of funding plan.

Current Status February 2005: Planning discussions held. (A verbal update on any further developments will be provided at March IPSASB meeting.)

Review Panel Recommendation (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*

Action and Time Frame:

- The IFAC Board to approve amendments of relevant sections of the PSC Handbook as identified in Appendix 1 of this Action Plan at its November 2004 meeting. The revised PSC terms of reference are identified as interim to reflect that amendments relating to PIOB oversight will occur over a longer time frame.

Current Status February 2005: Approved.

- The “International Federation of Accountants” sections of the Handbooks of other IFAC Committees also to be amended to reflect changes to PSC references.

Current Status February 2005: Done.

- The amendment of the PSC mandate to be effective as of January 2005 and to be included in the PSC 2005 Handbook, and 2005 Handbooks of other IFAC Boards and Committees.

Current Status February 2005: Done. Name change to International Public Sector Accounting Standards Board (IPSASB) to be effective immediately following IFAC Council meeting (November 2004).

- At the IFAC Board meeting of November 2004, the other IFAC Boards and Committees be requested to identify actions they need to take to give effect to these recommendations, including whether terms of reference need to be amended, membership profiles broadened to encompass public sector expertise, and work plans reviewed.

Current Status February 2005: Issue noted. Anticipated each Board and Committee will progressively deal with this matter – Chair of Public Accountants in Business Committee (PAIB) followed up with IPSASB Chair and Technical Director in 2004 re potential issues for his Committee. (See also Recommendation (f).)

Staff following up on action of other Board’s Committees. Verbal update on progress of other Committees to be provided as part of IFAC Committee Liaison Report.

Review Panel Recommendation (c) Content of work program

The Panel endorses the content of the PSC's current work program 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.*

Action and Time Frame:

- The PSC is to review its work plan and ensure that its work plan encompasses these major components with the priorities identified above. Effective immediately.

Current Status February 2005: IPSASB Work Plan for March 2005 restructured to reflect major priorities and current resources.

Review Panel Recommendation (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.*

Action and Time Frame:

- The PSC to action development of its own conceptual framework as resources allow and to use and interpret the IASB framework where appropriate. Additional, public sector specific characteristics and consideration are also to be added where necessary.

Current Status February 2005: Action deferred pending available resources. Consideration of strategy on framework proposed for IPSASB meeting in 2006.

Review Panel Recommendation (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*

Action and Time Frame:

- PSC to establish Steering Committees and identify and establish partnering arrangements as appropriate. Effective immediately.

Current Status February 2005: Implementation progressing.

Re: Partnering Arrangements – action developing. IPSASB will consider partnering relationship with UK ASB on heritage assets at March 2005 meeting. IPSASB agreed representatives of Standards-Setters from Canada, South Africa and USA would develop draft ED on Impairment of Cash-Generating Assets out of session. Worked with USA-GASB staff in developing IPSAS 21 “Impairment of Non-Cash-Generating Assets”.

Re: Steering Committees - No additional Steering Committees formed. However, IPSASB has project advisory panels (PAPs) in place for Budget Reporting, External Assistance and General Government Sector Disclosure projects.

Review Panel Recommendation (f) Cash Basis of Reporting

The Panel recommends that:

- *The PSC should fulfill 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*

Action and Time Frame:

- The PSC to maintain its work plan objective for review of Cash Basis IPSAS in 2005.

Current Status February 2005: Not done. IPSASB has deferred review pending additional resources. Review proposed for 2006.

- The Education Committee and the Developing Nations and Small and Medium Practices Permanent Task Forces and the PSC to develop a co-operative Report on mechanisms to assist with the implementation of the Cash Basis IPSAS for consideration of the IFAC Board in November 2005 following PSC review of implementation issues in the cash basis IPSAS.

Current Status February 2005: No action. IPSASB has not initiated action and not included proposed action on its work plan for 2005. Consideration possible in 2006.

Governance and Organization: Review Panel Recommendation (g) The appropriate governance model

The Panel recommends that:

- *The PSC's long-term objective¹ 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*

¹ The Report defines the time frames as within a year (short), 1-5 years (medium), and over 5 years (long).

Action and Time Frame:

- Advise IFAC Nominating Committee of capacity to appoint public members with a broad public interest mandate as PSC vacancies arise for terms commencing after November 2005. PSC size to be maintained at 15 (see recommendation m) and the number of public members to be limited to no more than two (as proposed for Education Committee). Term of appointment of public interest members to reflect that of other PSC members.

Current Status February 2005: Done/In process. IFAC Chief Executive will advise Nominating Committee. Anticipated that appointment of public members will be made progressively over next one or two years.

- IFAC Board to propose to Monitoring Group of Regulators and to PIOB at its first meeting, that PIOB terms of reference be amended to provide for at least two members with public sector expertise and to include the PSC within PIOB oversight by end of 2005. Consequential changes to PIOB and PSC Terms of Reference to be made in 2006.

Current Status February 2005: No action yet. First meeting of PIOB scheduled for February.

- PSC Chair to raise issue of IASB role in respect of private sector not-for-profit entities at next IASB SAC meeting in November 2004.

Current Status February 2005: IPSASB Chair has raised issue of IASB role in respect of private not-for-profit entities with IASB Chair. Note correspondence from Chair at Agenda item 6.7. (IPSASB has not adopted a medium term objective of including private not-for-profit sector within its scope.)

No further specific action on long term objective of convergence of private and public sector standards where appropriate. IPSASB's IFRS convergence program deferred pending additional resources.

Review Panel Recommendation (h) Nomination and rotation policy:

The Panel recommends that:

- *The IFAC Nominating Committee should be aware that the standard-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*

Action and Time Frame:

- IFAC Nominating Committee procedures are currently consistent with this recommendation. Advise IFAC Nominating Committee of Board's ongoing support for the current processes of the IFAC Nominating Committee – effective immediately.

Current Status February 2005: Done/In process. IFAC Chief Executive will advise Nominating Committee

Review Panel Recommendation (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*

Action and Time Frame:

- The Board has approved the name change. Consequential changes to the IFAC Constitution to proposed for approval at the IFAC Council meeting in November 2004. Name change to be effective January 2005.

Current Status February 2005: IFAC Council decision: name change effective from November 2004.

- PSC Chair, PSC Technical Director and IFAC staff to be responsible for consequential actions related to re-badging PSC documents moving forward, and communication and promotion of name change. Media release and “relaunch” of PSC as IPSASB to occur in conjunction with 2005 Handbook launch, and launch of the French and Spanish versions of IPSASs 1-20. IFAC President and PSC Chair to “launch” IPSASB in early 2005.

Current Status February 2005: Actions taking place. Rebadging, communication and promotion of name change are in process. IFAC Council decision that name change be effective from November 2004 pre-empted the proposed January 2005 launch.

Review Panel Recommendation (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*

Action and Time Frame:

- Monitor funding position. Reassess viability of a full-time chair position and increasing staff resources as additional long term funding is secured. Develop funding proposal to reflect increased staff establishment.

Current Status February 2005: Funding proposal developed. Additional funds not yet secured. Views on full time Chair noted - no current action proposed.

Review Panel Recommendation (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*

Action and Time Frame:

- PSC extend length of meetings. Effective immediately.

Current Status February 2005: Done.

- PSC schedule one meeting per year for New York at this stage, subject to review of this decision by the incoming Board.

Current Status February 2005: Done.

- IFAC Board revisit issue of meeting locations at the meeting of the incoming Board in November 2004. (Incoming Board did not revisit this decision).

Current Status February 2005: No action.

Review Panel Recommendation (l) Interpretations Committee

The Panel recommends that:

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

Action and Time Frame:

- No action.

Current Status February 2005: No action.

Review Panel Recommendation (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*

Action and Time Frame:

- Confirm with Nominating Committee and member bodies the Board's ongoing support for this recommendation. Appointment of membership directed at redress of PSC geographical and gender imbalance to be continued as PSC member vacancies arise and candidates with appropriate competencies are presented. Policy regarding technical advisors to be implemented - to ensure expertise and corporate knowledge of current technical advisors are not lost, changes in PSC technical advisor representation may be phased in with changes in or rotation of existing PSC members.

Current Status February 2005: Done/In Process. IFAC Chief Executive will advise Nominating Committee.

- Amend PSC terms of reference to reflect Board decision on number of technical advisors.

Current Status February 2005: Interim Terms of Reference revised. Staff propose that IPSASB implement decision progressively in consultation with IPSASB members and Member Bodies affected.

Review Panel Recommendation (n) Due process

The Panel recommends that:

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

Action and Time Frame:

- Amend PSC terms of reference and related promotion literature to reflect the Board decision.

Current Status February 2005: Currently the identification of a minimum of 4 month exposure period is included in the Preface to IPSASs and Introduction to all Exposure Drafts not the Interim Terms of Reference. It is proposed that any amendments to the Terms of Reference occur in conjunction with other changes that might flow from inclusion of IPSASB under the overview of the PIOB.

Review Panel Recommendation (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*

Action and Time Frame:

- Amend PSC terms of reference to reflect Board decision and clarify meaning of "proxy voting" as noted above.

Current Status February 2005: Interim Terms of Reference updated. Implementation of PSC direction that proxy voting be clarified is pending. The IFAC Board is developing standardized Terms of Reference (including proxy voting rules) of Public Interest Activity Committees under the supervision of the Public Interest Oversight Board. The IPSASB Interim Terms of Reference will be updated when agreed.

Review Panel Recommendation (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*

Action and Time Frame:

- The PSC formally identify the approach it adopts to the appointment of observers, establish criteria for review of the role of observers and agree processes to review the role of observers. Review to take place at final PSC meeting of each year. This review to be held in-camera. Materials to be prepared for PSC consideration at its March 2005 meeting.

Current Status February 2005: Pending. The IPSASB will consider proposals at its March 2005 meeting.

Review Panel Recommendation (q) Role and operation of the Consultative Group

The Panel recommends that 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*

Action and Time Frame:

- The PSC implements these recommendations and considers proposals for clarifying the role of the Consultative Group and appointment of regional Chairs at its first meeting in 2005. (The PSC has already implemented the final two recommendations but should formalize those recommendations in any revised Terms of Reference for the Consultative Group).

Current Status February 2005: Done in part. Other aspects under development. Regional Chairs will be considered at March 2005 Meeting. Other matters are steadily being implemented.

Review Panel Recommendation (r) 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*

Action and Time Frame:

- The PSC confirms its arrangement with the IASC Foundation for Translation of pronouncements into Spanish and French. Arrangements for the translation of the Cash Basis IPSAS be agreed by the end of 2004.

Current Status February 2005: Done. Spanish translation complete. French translation nearing completion.

Review Panel Recommendation (s) Budget

The Panel recommends that:

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

Action and Time Frame:

- IFAC ensure that persons appointed to New York based staff continues to have appropriate expertise and experience to enable them to carry out technical work. PSC Technical Director ensure that appropriate technical tasks are allocated to New York based PSC staff.

Current Status February 2005: Done.

Review Panel Recommendation (t) 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*

Action and Time Frame:

- Revisit location of PSC staff when appropriate long term funding arrangements are in place.

Current Status February 2005: No change.

IPSASB OBSERVERS – STAFF VIEWS ON COMPOSITION AND ROLE

INTRODUCTION

The External Review Panel (Report 2004) recommended that:

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

The IFAC Board accepted this recommendation and agreed the following action and time frame:

“The PSC formally identify the approach it adopts to appointment of observers, establish criteria for review of the role of observers and agree processes to review the role of observers. Review to take place at final PSC meeting of each year. This review to be held in-camera. Materials to be prepared for PSC consideration at its March 2005 meeting.”

IPSASB Observers: Background

Currently there are nine observers on the IPSASB. They represent funders and other key constituents. Observers do not have voting rights, but they have full rights of the floor.

Observers – 2005

Asian Development Bank (ADB)
European Union (EU) – Eurostat
International Accounting Standards Board (IASB)
International Monetary Fund (IMF)
International Organisation of Supreme Audit Institutions (INTOSAI)
Organisation of Economic Co-operation and Development (OECD)
United Nations (UN)
United Nations Development Program (UNDP)
World Bank

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 conjunction with the IFAC Chief Executive.

The External Review 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”.

The internal review of the PSC conducted in 2001/2002 by a PSC sub-committee reached similar conclusions. The subcommittee noted:

“It appears unnecessary for the PSC to establish firm criteria for qualification as observer but should invite participation as perceived appropriate. To maximize the value to the PSC and the observer organization it is expected that observers will attend PSC meetings regularly.”

The current observers represent international and regional development banks, international development agencies, the statistical community, the international public sector audit community and the IASB.

Staff are of the view that the current observer group provide valuable input to IPSASB development of, and deliberation on, issues. The observers establish important ongoing relationships with a range of key external constituents, bring to the table additional perspectives, including those of preparers, and provide valuable technical, strategic and political input to the IPSASB. They also provide valuable links to current and potential funders. While the IPSASB needs to maintain ongoing links with its external funders, it should be noted that around 75% of respondents to the survey conducted in conjunction with the external review (in 2004) noted that observer status should not be linked only to funding. (In this context, whether the current observer group should be enlarged by the addition of a representative of the academe is dealt with separately in the covering memorandum at Agenda item 13.1.)

Staff Views on the Appointment Process

Any review of the composition and role of observers needs to be undertaken in the context of the evolving role of the IPSASB Consultative Group and Steering Committees, and the capacity for the appointment of public members to the IPSASB. All these developments enhance the IPSASB’s capacity to involve and “place” key constituent groups appropriately in the standards development process. Given IPSASB meetings are public, IPSASB agenda documents are made publicly available before each meeting, and the role of Consultative Group has been strengthened, the additional benefit of observer status (above Consultative Group or Steering Committee membership) is full rights of the floor and full participation in IPSASB discussions at each meeting.

In response to the recommendations of the External Review Panel and the action plan agreed by the IFAC Board, staff are of the view that the IPSASB should identify that its approach to the appointment of observers is as follows:

1. Observers will be appointed on an as needs basis. Observers will not be appointed for a specified time period, but observer composition will be reviewed annually.
2. Any organization nominating a new or additional observer is to submit to the IPSASB Chair the name(s) of the proposed observer together with a short career resume. Where possible, more than one nominee will be proposed. This will enable the Chair, in consultation with the nominating organization, to ensure that there is an appropriate spread of experience and expertise in the observer group.

3. Observers are expected to contribute technical, strategic, promotion and/or political input to IPSASB discussions. These factors will be weighed in making any appointments and in reviewing the existing composition of observers.
4. Appointment will be made after consideration of the composition of the IPSASB including its public members, the Consultative Group membership and any composition of any ongoing steering committees.
5. Observers are expected to attend IPSASB meetings on a regular basis. This reflects the recommendation of the in-house review of the PSC's operations in 2001/2002. This will ensure that all observers are familiar with the state of ongoing issues, and that comments are made, and discussion occurs with full knowledge of the background and development of projects/issues. The IPSASB appreciates that this may not be possible on all occasions. In circumstances where the observer cannot attend, the Chair is to be advised if an alternate is to attend. In the interests of continuity of representation and familiarity with work program and other issues, the IPSASB expects that each observer will brief his or her alternate on IPSASB discussions on a regular basis.
6. To ensure that the size of the IPSASB does not increase, only one observer from each organization shall normally attend each meeting. However, the Chair retains the discretion to invite additional observers, including additional observers from the current observer sponsoring organizations, to attend IPSASB meetings, on a meeting by meeting basis.
7. Each observer will be expected to communicate and promote the IPSASB work program to his or her constituency network as appropriate, and bring to the IPSASB table relevant issues and perspectives from that network. It is expected that observers will support and promote the work of the IPSASB at relevant meetings and public forums.
8. A review of observer performance and status will be undertaken each year by IPSASB members. That review will occur in-camera and will consider the factors noted above.

Communication of the Appointment Process

Staff are of the view that the IPSASB should write to all existing observer organizations, acknowledging the significant input provided to the work of the IPSASB by their current representative(s), that their continued participation as an observer is highly valued and that the IPSASB would welcome their ongoing participation through their current representative. Those organizations should also be advised that in accordance with the recommendations of the external Review Panel, the IPSASB has developed the above criteria for appointment of observers and will review the role of observers against these criteria on an annual basis.

Mr. P. Adhémar
Chairman of the
International Public Sector Accounting Standards Board
Cour des Comptes
13, Rue Cambon
75100 Paris Cédex
France

14 December 2004

Dear Philippe,

I am writing to you in my position as chair of CIGAR. As you know the members of our network are working together in the area of (preferably comparative international) research in government accounting.

It has been suggested that academics specializing in government accounting could perhaps receive an observer status to the IPSAS Board. So far, academics have not been formally represented in the IPSASB, or its predecessor, meetings. We are convinced that such a representation could be very fruitful, especially now that IPSASB is addressing the more government-specific topics (although the subject of adapting private sector standards to public sector application challenges our specific expertise in the same manner).

Should such a representation be considered by the IPSASB, it is our opinion that the CIGAR network is optimally suited to such an observer's role, because our members have the expertise as well as the connections to the international academic constituency of IPSASB's activities. Membership of our network not only covers Europe but has also representatives from Japan, China, Australia, New Zealand and the USA in its community, among others.

We would be very grateful to receive any thoughts you may have on such an observer's role for the CIGAR network.

Kind regards,

Prof. Dr. Rowan Jones
Chair of the CIGAR network
Birmingham Business School
University of Birmingham
Edgbaston
Birmingham B15 2TT
United Kingdom

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD -INTERIM TERMS OF REFERENCE

(Approved November 2004)

Contents

	Paragraphs
Purpose of the International Public Sector Accounting Standards Board.....	1–3
Appointment of Members	4-8
Nature, Scope and Authority of Pronouncements	9-12
Working Procedures	13-18
Language	19

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Interim Terms of Reference

Purpose of the International Public Sector Accounting Standards Board

1. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant.”. In pursuing this mission, the IFAC Board has established the International Public Sector Accounting Standards Board (IPSASB) to develop high-quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial statements. In this regard:
 - the term “public sector” refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises); and
 - general purpose financial statements refers to financial statements issued for users that are unable to demand financial information to meet their specific information needs.
2. The IFAC Board has determined that designation of the IPSASB as the responsible body for the development of such standards, under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission.
3. The IPSASB functions as an independent standard-setting body under the auspices of IFAC. It achieves its objectives by:
 - Issuing International Public Sector Accounting Standards (IPSASs);
 - Promoting their acceptance and the international convergence to these standards; and
 - Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.

Appointment of Members

4. The members of the IPSASB are appointed by the Board of IFAC. The IPSASB comprises 15 members, 13 of whom are nominated by the member bodies of IFAC and two of whom are appointed as public members. Public members may be nominated by any individual or organization.
5. Candidates put forward are considered for appointment by the IFAC Nominating Committee. The selection process is based on the best person for the job. In recommending appointments to the Board, the Nominating Committee seeks to ensure that the IPSASB comprises a membership which possesses appropriate technical expertise, knowledge of institutional arrangements encompassed by its constituency, technical proficiencies of users, preparers and auditors, and a broad geographical spread.
6. IPSASB members are appointed for an initial term of three years which may be renewed for further three-year terms. Appointments will be made annually in such a way that one-third of the members shall be rotated each year. Continuous service on the Board by the same person shall be limited to two consecutive three-year terms, unless that member is appointed to serve as Chair for a further term. The members of the IPSASB will be primarily engaged in the public sector. For voting purposes, each IPSASB member has one vote.
7. Each member of the IPSASB may be joined at the meeting table by one technical advisor who will have the full privilege of the floor but will not be entitled to vote.
8. The IPSASB may appoint as observers, representatives of appropriate organizations that have a strong interest in financial reporting in the public sector, provide ongoing input to the work of the IPSASB and have an interest in endorsing and supporting IPSASs. These observers will have the privilege of the floor but will not be entitled to vote. They will be expected to possess the technical skills to participate fully in the IPSASB discussions and to attend IPSASB meetings regularly to maintain an understanding of current issues. The IPSASB will review the composition and role of observers on an annual basis.

Nature, Scope and Authority of Pronouncements

9. The IPSASB has been given the authority, on behalf of the Board of IFAC, to issue:
 - International Public Sector Accounting Standards (IPSASs) as the standards to be applied by members of the profession in the preparation of general purpose financial statements of public sector

INTERNATIONAL FEDERATION OF ACCOUNTANTS

entities. The IPSASB adopts a “due process” for the development of IPSASs which provides all interested parties with the opportunity to provide input to the standards development process.

- Studies to provide advice on financial reporting issues in the public sector. They are based on study of the best practices and most effective methods for dealing with the issues being addressed.
- Occasional Papers and Research Reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments. They are aimed at providing new information or fresh insights and generally result from research activities such as: literature searches, questionnaire surveys, interviews, experiments, case studies and analysis.

10. In developing its standards, the IPSASB seeks input from its consultative group and considers and makes use of pronouncements issued by:
- (i) The International Accounting Standards Board (IASB) to the extent they are applicable to the public sector;
 - (ii) National standard-setters, regulatory authorities and other authoritative bodies;
 - (iii) Professional accounting bodies; and
 - (iv) Other organizations interested in financial reporting in the public sector.

The IPSASB will ensure that its pronouncements are consistent with those of IASB to the extent those pronouncements are applicable and appropriate to the public sector.

11. The objective of the IPSASB Consultative Group is to provide a forum in which the IPSASB can consult with representatives of different groups of constituents to obtain input and feedback on its work program, project priorities, major technical issues, due process and activities in general. The Consultative Group does not vote on International Public Sector Accounting Standards or other documents issued by the IPSASB.
12. The IPSASB cooperates with national standard-setters in preparing and issuing Standards to the extent possible, with a view to sharing resources, minimizing duplication of effort and reaching consensus and convergence in standards at an early stage in their development. It also promotes the endorsement of IPSASs by national standard-setters and other authoritative bodies and encourages debate with users, including elected and appointed representatives; Treasuries, Ministries of Finance and similar authoritative

INTERNATIONAL FEDERATION OF ACCOUNTANTS

bodies; and practitioners throughout the world to identify user needs for new standards and guidance.

Working Procedures

13. The IPSASB issues exposure drafts of all proposed standards for public comment. In some cases, the IPSASB may also issue an Invitation to Comment prior to the development of an Exposure Draft. This provides an opportunity for those affected by IPSASB pronouncements to provide input and present their views before the pronouncements are finalized and approved. The IPSASB considers all comments received on Invitations to Comment and Exposure Drafts in developing an IPSAS.
14. Each IPSASB meeting requires the presence, in person or by simultaneous telecommunications link, of at least ten appointed members.
15. Each member of the IPSASB has one vote. An affirmative vote of at least two-thirds of the voting rights of the IPSASB is necessary to approve Invitations to Comment, Exposure Drafts and IPSASs. An IPSASB member may authorize an individual present at an IPSASB meeting to vote on behalf of the member.
16. IPSASB meetings to discuss the development, and to approve the issuance, of standards or other technical documents are open to the public. Agenda papers, including minutes of the meetings of the IPSASB, are published on the IPSASB's website.
17. IPSASB publishes an annual report outlining its work program, its activities and the progress made in achieving its objectives during the year.
18. IFAC will review the effectiveness of the IPSASB's processes at least every three years.

Language

19. The approved text of a pronouncement is that published by IPSASB in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of their own countries as appropriate.

INTERNATIONAL FEDERATION OF ACCOUNTANTS

The Organization

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. Founded in 1977, its mission is to serve the public interest, strengthen the global accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

IFAC's governing bodies, staff and volunteers are committed to the values of integrity, transparency and expertise. IFAC also seeks to reinforce professional accountants' adherence to these values, which are reflected in the IFAC *Code of Ethics for Professional Accountants*.

Primary Activities

Serving the Public Interest

IFAC strives to serve the public interest in the following ways:

- Developing, promoting and maintaining global professional standards and a Code of Ethics of a consistently high quality;
- Actively encouraging convergence of professional standards, particularly standards on auditing, assurance, ethics, education and financial reporting;
- Seeking continuous improvements in the quality of auditing and financial management; and
- Promoting compliance with membership obligations.

Contributing to the Efficiency of the Global Economy

IFAC contributes to the efficient functioning of the international economy by:

- Improving confidence in the quality and reliability of financial reporting;
- Encouraging the provision of high quality performance information (financial and non-financial) within organizations; and
- Promoting the provision of high quality services by all members of the worldwide accountancy profession.

Providing Leadership and Spokesmanship

INTERNATIONAL FEDERATION OF ACCOUNTANTS

IFAC is the primary spokesperson for the international profession and speaks out on a wide range of public policy issues, especially those where the profession's expertise is most relevant, as well as on regulatory issues related to auditing and financial reporting. This is accomplished in part through outreach to numerous organizations that rely on or have an interest in the activities of the international accountancy profession.

Membership

IFAC is comprised of 163 member bodies from every part of the globe, representing more than 2.5 million accountants in public practice, industry and commerce, the public sector and education. No other accountancy body in the world and few other professional organizations have the broad-based international support that characterizes IFAC.

IFAC's strengths derive not only from its international representation, but also from the support and involvement of its individual member bodies, which are themselves dedicated to promoting quality, expertise and integrity in the accountancy profession.

Standard-Setting Initiatives

IFAC has long recognized the need for a globally harmonized framework to meet the increasingly international demands that are placed on the accountancy profession, whether from the business, public sector or education communities. Major components of this framework are the IFAC *Code of Ethics for Professional Accountants*, International Standards on Auditing (ISAs), International Education Standards and International Public Sector Accounting Standards (IPSASs).

Auditing and Assurance Services

The International Auditing and Assurance Standards Board (IAASB) develops ISAs and International Standards on Review Engagements (ISREs), which deal with the audit and review of historical financial statements, and International Standards on Assurance Engagements (ISAES), which deal with assurance engagements other than the audit or review of historical financial information. The IAASB also develops related practice statements. These standards and statements serve as the benchmark for high quality auditing and assurance standards and statements worldwide. They outline basic principles and essential procedures for auditors and other professional accountants, giving them the tools to cope with the increased and changing demands for reports on financial information, and provide guidance in specialized areas.

In addition, IAASB develops quality control standards for firms and engagement teams in the practice areas of audit, assurance and related services.

INTERNATIONAL FEDERATION OF ACCOUNTANTS

The pronouncements issued by the IAASB are contained in the 2004 edition of IFAC's *Handbook of International Auditing, Assurance, and Ethics Pronouncements* and are also available from the IFAC website at <http://www.ifac.org>.

Ethics

The IFAC *Code of Ethics for Professional Accountants*, developed by IFAC's Ethics Committee, serves as the foundation for all codes of ethics developed and enforced by member bodies. It endorses the concepts of objectivity, integrity and professional competence and is applicable to all professional accountants.

Public Sector

The International Public Sector Accounting Standards Board (IPSASB) develops International Public Sector Accounting Standards (IPSASs) which set out the requirements for financial reporting by governments and other public sector entities. The IPSASs represent international best practice in financial reporting by public sector entities. They apply to general purpose financial statements prepared under the accrual basis of accounting and the cash basis of accounting, as specified. In many jurisdictions, the application of the requirements of IPSASs will enhance the accountability and transparency of the financial reports prepared by governments and their agencies.

The IPSASB also issues non-authoritative Studies, Occasional Papers, and Research Reports which provide guidance on the migration from the cash to the accrual basis of financial reporting, outline country experiences in financial reporting by governments and deal with specific financial reporting issues in the public sector.

The pronouncements issued by the IPSASB are contained in the 2005 edition of IFAC's *Handbook of International Public Sector Accounting Standards* and are also available from the IFAC website at <http://www.ifac.org>.

Education

Working to advance accounting education programs worldwide, IFAC's Education Committee develops International Education Standards, setting the benchmarks for the education of members of the accountancy profession. All IFAC member bodies are expected to comply with those standards, which address the education process leading to qualification as a professional accountant as well as the ongoing continuing professional development of members of the profession. The committee also develops other guidance to assist member bodies and accounting educators to implement and achieve best practice in accounting education.

This handbook does not contain the International Education Standards, which are available from the IFAC website at <http://www.ifac.org>.

Serving a Diverse Constituency

Both IFAC and its member bodies face the challenge of meeting the needs of an increasing number of accountants employed in business. These accountants now comprise more than 50 percent of the membership of IFAC member bodies. IFAC's Professional Accountants in Business Committee (PAIB) offers guidance to assist these members in addressing a wide range of professional issues, encourages and supports high quality performance by PAIBs and strives to build public awareness and understanding of the work they provide.

IFAC is also focused on providing best practice guidance to another growing constituency: small- and medium-sized practices (SMPs). In this regard, IFAC has established a permanent SMP Task Force. This task force investigates ways in which IFAC can respond to the needs of members operating in small and medium-sized practices and small and medium-sized enterprises. It also studies issues relevant to SMPs, develops papers on topics of global concern, and provides input on the work of other IFAC committees where appropriate.

A permanent Developing Nations Task Force has also been formed to study the unique needs of this constituency and to determine how IFAC can best support developing nations in establishing an accountancy profession committed to high quality standards and practices.

IFAC Compliance Program

As part of a new Membership Compliance Program, IFAC's 163 member bodies (mostly national professional institutes) will be required to implement (subject to national laws and regulations) both IFAC standards and the International Accounting Standards Board's International Financial Reporting Standards (IFRSs). The member bodies will also be required to have the structures in place to ensure that its members are complying with these standards as well as have appropriate investigative and disciplinary processes for their members. Statements of Membership Obligations will serve as the foundation for the Compliance Program, which will be overseen by a Compliance Advisory Panel.

Regulatory Framework

In November 2003, IFAC, with the support of international regulators, approved a series of reforms to increase confidence that the activities of IFAC are properly responsive to the public interest and will lead to the establishment of high quality standards and practices in auditing and assurance.

The reforms provide for more transparent standard-setting processes; greater public and regulatory input into those processes; regulatory monitoring; and public interest oversight. The reforms also ensure that there is regular, ongoing dialogue between

INTERNATIONAL FEDERATION OF ACCOUNTANTS

regulators and the accountancy profession. This is to be accomplished through the creation of several new structures:

Public Interest Oversight Board (PIOB)—This board, comprising 10 members appointed by regulators, will oversee IFAC standard-setting activities in the areas of ethics – including independence – quality control, auditing and assurance. It will also oversee IFAC’s Compliance Program.

Monitoring Group (MG)—The MG will comprise international regulators and related organizations. Its role is to update the PIOB regarding significant events in the regulatory environment. It will also be the vehicle for dialogue between regulators and the international accountancy profession.

IFAC Leadership Group (ILG)—The ILG includes the IFAC President, Deputy President, Chief Executive, the Chairs of the IAASB, the Transnational Auditors Committee, the Forum of Firms, and up to four other members designated by the IFAC Board. It will work with the MG and address issues related to the regulation of the profession.

IFAC Structure and Operations

Governance of IFAC rests with its Board and Council. IFAC Council comprises one representative from each member body. The Board is a smaller group responsible for policy setting. As representatives of the worldwide accountancy profession, Board members have taken an oath of office to act with integrity and in the public interest.

IFAC is headquartered in New York City and is staffed by accounting and other professionals from around the world.

IFAC Website

All guidance developed by IFAC and its boards and committees may be downloaded free of charge from its website: <http://www.ifac.org>. The website also features additional information about IFAC’s structure and activities.

**PREFACE TO INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS**

CONTENTS

	Paragraphs
Introduction	1–4
Objective of the IPSASB	5–9
Membership of the IPSASB	7
IPSASB Meetings.....	8–9
Scope and Authority of International Public Sector Accounting Standards	10–28
Scope of the Standards	10–13
General Purpose Financial Statements	14–16
IPSASs for the Accrual and Cash Bases	17–19
Moving From the Cash Basis to the Accrual Basis	20–24
Authority of the International Public Sector Accounting Standards	25–28
Due Process	29–34
Language	35

PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

1. This Preface to the International Public Sector Accounting Standards (IPSASs) sets out the objectives and operating procedures of the International Public Sector Accounting Standards Board (IPSASB) and explains the scope and authority of the IPSASs. The Preface should be used as a reference for interpreting invitations to comment, discussion documents, exposure drafts and standards approved and published by the IPSASB.
2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession’s expertise is most relevant.” In pursuing this mission, IFAC established the IPSASB.
3. The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs).
4. The IPSASB’s Consultative Group is appointed by the IPSASB. The Consultative Group is a non-voting group. It provides a means by which the IPSASB can consult with and seek advice as necessary from a broad constituent group. The Consultative Group is chaired by the Chair of the IPSASB. The Consultative Group is primarily an electronic forum. However, regional chapters of the Consultative Group meet with the IPSASB in conjunction with any IPSASB meetings in their region. All Consultative Group members are invited to these meetings. In addition, a full meeting of all members of the Consultative Group may be held if considered necessary.

Objective of the IPSASB

5. The objective of the IPSASB is to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world. The IPSASB achieves its objectives by:

- Issuing International Public Sector Accounting Standards (IPSASs);
 - Promoting their acceptance and the international convergence to these standards; and
 - Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.
6. The IPSASs are the authoritative requirements established by the IPSASB. Apart from developing IPSASs, the IPSASB issues other non-authoritative publications including studies, research reports and occasional papers that deal with particular public sector financial reporting issues.

Membership of the IPSASB

7. The members of the IPSASB are appointed by the IFAC Board to serve on the IPSASB. The IPSASB comprises 15 members, 13 of whom are nominated by member bodies of IFAC and two of whom are public members. Public members may be nominated by any individual or organization. In addition, a limited number of observers from bodies that have an interest in public sector financial reporting are appointed to IPSASB. These observers have the privilege of the floor but are not entitled to vote.

IPSASB Meetings

8. Each IPSASB meeting requires a quorum of at least ten appointed members, in person or by simultaneous telecommunications link.
9. IPSASB meetings to discuss the development and to approve the issuance of IPSASs or other papers are open to the public. Agenda papers, including the minutes of the meetings of the IPSASB, are published on the IPSASB's web site.

Scope and Authority of International Public Sector Accounting Standards

Scope of the Standards

10. The IPSASB develops IPSASs which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting.
11. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements.

12. The IPSASs are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The Standards do not apply to Government Business Enterprises. Government Business Enterprises apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of Government Business Enterprises.
13. Any limitation of the applicability of specific IPSASs is made clear in those standards. IPSASs are not meant to apply to immaterial items.

General Purpose Financial Statements

14. Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term “financial statements” used in this Preface and in the standards covers all statements and explanatory material which are identified as being part of the general purpose financial statements.
15. When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity. When the cash basis of accounting underlies the preparation of the financial statements, the primary financial statement is the statement of cash receipts and payments.
16. In addition to preparing general purpose financial statements, an entity may prepare financial statements for other parties (such as governing bodies, the legislature and other parties who perform an oversight function) who can demand financial statements tailored to meet their specific information needs. Such statements are referred to as special purpose financial statements. The IPSASB encourages the use of IPSASs in the preparation of special purpose financial statements where appropriate.

IPSASs for the Accrual and Cash Bases

17. The IPSASB develops accrual IPSASs that:
 - Are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to a public sector context when appropriate. In undertaking that

process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRSs unless there is a significant public sector issue which warrants a departure; and

- Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.
18. As many accrual-based IPSASs are based on IFRSs, the IASB's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of IPSASs.
19. The IPSASB has also issued a comprehensive Cash Basis IPSAS that includes mandatory and encouraged disclosures sections.

Moving from the Cash Basis to the Accrual Basis

20. The Cash Basis IPSAS encourages an entity to voluntarily disclose accrual-based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual-based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.
21. The IPSASB also attempts to facilitate compliance with accrual-based IPSASs through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual-based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual-based IPSASs and could choose to apply any transitional provisions in an individual accrual-based IPSAS.
22. Having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual-based IPSASs.
23. International Public Sector Accounting Standard (IPSAS) 1, "Presentation of Financial Statements" includes the following requirement:

“An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standards.”

24. IPSAS 1 also requires disclosure of the extent to which the entity has applied any transitional provisions.

Authority of International Public Sector Accounting Standards

25. Within each jurisdiction, regulations may govern the issue of general purpose financial statements by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated by governments, regulatory bodies and/or professional accounting bodies in the jurisdiction concerned.
26. The IPSASB believes that the adoption of IPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.
27. The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting standards that apply to governments and public sector entities within their jurisdiction. IPSASs may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. IPSASs are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities. The IPSASB strongly encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs.
28. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with IPSASs. The success of the IPSASB's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdiction.

Due Process

29. The IPSASB adopts a due process for the development of IPSASs that provides the opportunity for comment by interested parties including IFAC member bodies, auditors, preparers (including finance ministries), standard-setters, and individuals. The IPSASB also consults with its Consultative Group on major projects, technical issues, and work program priorities.
30. The IPSASB's due process for projects normally, but not necessarily, includes the following steps:
- Study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
 - Consideration of pronouncements issued by:
 - the International Accounting Standards Board (IASB);
 - National standard-setters, regulatory authorities and other authoritative bodies;
 - Professional accounting bodies; and
 - Other organizations interested in financial reporting in the public sector;
 - Formation of steering committees (SCs), project advisory panels (PAPs) or subcommittees to provide input to the IPSASB on a project;
 - Publication of an exposure draft for public comment usually for at least 4 months. This provides an opportunity for those affected by the IPSASB's pronouncements to present their views before the pronouncements are finalized and approved by the IPSASB. The exposure draft will include a basis for conclusion;
 - Consideration of all comments received within the comment period on discussion documents and exposure drafts, and to make modifications to proposed standards as considered appropriate in the light of IPSASB's objectives; and
 - Publication of an IPSAS which includes a basis for conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions.

Steering Committees, Project Advisory Panels and Subcommittees

31. The IPSASB may delegate the responsibility for carrying out the necessary research and for preparing exposure drafts of proposed Standards and guidelines or drafts of studies to steering committees, subcommittees or individuals.
32. Steering Committees, Project Advisory Panels and subcommittees are chaired by a member of the IPSASB, but can include persons who are not members of the IPSASB or of a member body of IFAC.

Approval arrangements

33. The draft of a standard, duly revised after the exposure period, is submitted to the IPSASB for approval. If approved by the IPSASB, it is issued as an IPSAS and becomes effective from the date specified in the standard. On occasion, where there are significant unresolved issues associated with an exposure draft, the IPSASB may decide to re-expose a proposed standard.
34. For the purposes of approving an invitation to comment, exposure draft or a standard, an affirmative vote of at least two-thirds of the voting rights of the IPSASB is required. Each IPSASB member represented on the IPSASB has one vote.

Language

35. The approved text of any exposure draft or standard is that published by IFAC in the English language. IFAC members are authorized and encouraged to prepare translations of exposure drafts and standards, to be issued in the language of their own countries as appropriate. Where such translations are prepared, the official version is that published in the English language. These translations should indicate the name of the IFAC member body that prepared the translation and that it is a full translation of the approved text. Other organizations wishing to translate exposure drafts and standards should first contact the IFAC Secretariat.

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.