

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 21–24, 2016

From: IPSASB Staff

Agenda Item 4

For:
 Approval
 Discussion
 Information

Updating of IPSASB Terms of Reference—Consideration of Proposed Changes

Objectives of Agenda Item

1. To **brief** the IPSASB on developments pertaining to review and updating of the IPSASB Terms of Reference (ToR), and to consider proposed changes.

Materials Presented

Agenda Item 4.1 Issues Paper, Updating of IPSASB Terms of Reference—Consideration of Proposed Changes

Actions Requested

2. The IPSASB is asked to **consider** the matters identified in Agenda Item 4.1.

Updating of IPSASB Terms of Reference—Consideration of Proposed Changes

Objective of Session

1. To brief the IPSASB on developments pertaining to review and updating of the IPSASB Terms of Reference (ToR), and to consider proposed changes to the ToR as a result.

Overview of Developments

2. There are essentially three related developments currently inputting to the review and updating of the IPSASB ToR. These are:
 - i) Recommendations arising from the Public Interest Committee's (PIC) initial review of the ToR.
 - ii) IPSASB Staff recommendations on additional areas where the ToR may require amendment to more fully reflect the governance arrangements now in effect.

In addition, Staff have identified areas where further editorial changes and clarifications would assist in modernizing the ToR and enhance consistency with the ToR of other international standard-setting boards (SSBs)¹.
 - iii) IFAC Constitution and Bylaws changes, specifically reflecting the aim of those that focus on clarification and reinforcement of the independence of the SSBs supported by IFAC.
3. Each of these are further discussed below, along with an overview of proposed changes.

PIC Recommendations, and Other IPSASB Governance Related Enhancements

4. In accordance with its mandate, the PIC carried out an initial review of the extant IPSASB ToR. The PIC had no comments, except for the need to insert a sentence or two about the PIC's role in due process. IPSASB and IFAC Staff agreed in principle with this advice, and noted that proposed changes will be taken forward.
 - **Proposed change: See Appendix – Section 8 (Due Process) of the ToR.**

IPSASB Staff Recommendations: Other Governance-Related Enhancements, and ToR Updating

5. At the time of the PIC review, IPSASB Staff identified additional areas where the IPSASB ToR may require amendments to reflect changes in governance arrangements (e.g., establishment of IPSASB CAG). These areas were noted to the PIC, with an indication that the related proposals would be put to the IPSASB for consideration.
 - **Proposed changes:**
 - **See Appendix – Section 3 (Membership)** – To reflect PIC involvement and role in reviewing and providing advice on the Nominating Committee recommendations for IPSASB Member appointments.

¹ In addition to the IPSASB, the independent SSBs include the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB).

- **See Section 3 (Membership)** – To reflect the rights and responsibilities of PIC members and the IPSASB CAG Chair at IPSASB meetings.
 - **See Section 9 (Consultative Advisory Group)** – Section title revised to refer to the "Consultative Advisory Group". Further amendments included to reflect the remit of the CAG in accordance with the CAG ToR.
 - **See Section 10 (Other)** – To reflect the PIC role in providing advice on the IPSASB ToR.
6. In addition, Staff have identified areas where further editorial changes and clarifications would assist in modernizing the ToR and enhance consistency among the SSBs. This includes proposed changes by the other SSBs during an update review of their own ToRs.
- **Proposed changes:**
 - **See Section 2 (Pronouncements)** – To reflect the Conceptual Framework as part of pronouncements of the IPSASB, and to reflect better the distinction between the IPSASBs authoritative standards (IPSASs) and other material.
 - **See Section 3 (Membership)** – Further explanation of the role and remit of the Nominating Committee, and its relationship to IFAC and the SSBs.
 - **See Sections 4 & 5 (Chair and Deputy Chair)** – Additions to address circumstances where the IPSASB chair is remunerated and to add text in regards to the IPSASB deputy chair to provide guidance on succession matters.
 - **See Sections 6 (Terms of Office)** – To more accurately reflect member terms.
- Other minor editorial changes and clarifications are also proposed.

IFAC Constitution and Bylaw Review

7. During IFAC's Constitution and Bylaws review in February 2014, a key area of focus was clarification and reinforcement of the independence of the SSBs supported by IFAC. For example, among other changes, the Constitution and Bylaws were amended to reflect the fact that IFAC's role is to provide resources (both human and financial) and operational and administrative support to the independent SSBs and, if applicable, in consultation with the relevant Public Interest Oversight Authority.²
8. Staff have identified a few areas where changes to the IPSASB ToR are needed for conformity to the IFAC Constitution, as well as other recommendations specifically reflecting the aim of reinforcing the SSBs' independence.
- **Proposed changes:**
 - **See Extant Section 1 (Purpose)** – Proposed removal to reinforce perceptions of independence of the IPSASB from IFAC.

² Similar changes were made to reflect the principle of independences of the SSBs, for example, that appointments of the chair, members and observers of the independent SSBs require endorsement by the IFAC Board, where approval is the responsibility of the relevant Public Interest Authority (or, implicitly, otherwise may require obtaining the Public Interest Oversight Authorities advice prior to IFAC Board approval, where approval remains the responsibility of the IFAC Board. Relevant changes to the ToR are reflected in the proposals in paragraphs 4-5 of this Paper.

- **See Section 3 (Membership)** – Amendments in regards to the annual declarations by technical advisors
- **Section 10 (Other)** – Acknowledge the financial, operational and administrative support provided to IPSASB and clarify the relationship with IFAC.

Material Presented

9. The Appendix to this Paper reflects the above proposals for change to the IPSASB ToR and the underlying rationale for them.

Next Steps

10. The IFAC Board has continuing discussions of a number of aspects of standard-setting governance. Some of these discussions have been the context of the IFAC constitutional review, including whether further amendments are needed, and others have resulted from strategic reviews by the IFAC Board and by enacting measures to further promote the independence of the standard-setting process, principally, but not exclusively, relating to the standard-setting boards other than the IPSASB.
11. The IFAC management team and the IFAC Board have committed to progressing those discussions in an orderly and timely manner in 2016, including considering whether there are consequential matters, if any, arising that may affect the text of the IPSASB ToR.
12. The IPSASB's feedback on the proposed changes to its ToR will be assimilated with feedback provided by the other SSBs on similar changes proposed to their ToR, and provided to the IFAC Board and PIC in due course. Any further changes to the ToR that may be needed arising from IFAC Board will be discussed with the IPSASB and the PIC. Assuming common support for the final proposed changes, the IFAC Board will then look to finalize the amended ToR.

Action Requested

13. The IPSASB is asked to provide feedback on the proposed changes to the IPSASB ToR.

**International Public Sector Accounting Standards Board
Terms of Reference – Proposed Changes**

Proposed Change	Reason for Change
<p>1.0—Purpose</p> <p>The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession’s expertise is most relevant.” In pursuing this mission, the IFAC Board has established the International Public Sector Accounting Standards Board (IPSASB) to function as an independent standard-setting body under the auspices of IFAC.</p> <p>The IPSASB develops and issues, in the public interest and under its own authority, high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports. In this regard:</p> <ul style="list-style-type: none"> • 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 reports refers to financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs. <p>The IFAC Board has determined that designation of the IPSASB as the responsible body under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission.</p>	<p>To remove IFAC’s mission statement to help to clarify and reinforce the independence of the SSBs and because it is not directly relevant to the IPSASB (that is, the focus of the IPSASB’s <u>ToR</u> should be on the IPSASB’s mission).</p> <p>Proposed removal, as pertinent information about the IPSASB is contained in the “Objective” section below.</p> <p>To remove a paragraph that contains a reference to IFAC’s Board and is not considered to be necessary.</p>
<p>12.0—OBJECTIVE</p> <p>The IPSASB’s objective is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.</p>	<p>No change</p>
<p>This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications</p>	<p>No change</p>

<p>23.0—PRONOUNCEMENTS</p> <p>In fulfilling the above objective, the IPSASB develops and issues, <u>under its own authority</u>, the following:</p> <ul style="list-style-type: none"> • International Public Sector Accounting Standards (IPSASs) as the <u>authoritative standards</u> to be applied by members of the profession in the preparation of general purpose financial reports (<u>GPFRs</u>) of public sector entities. • <u>Other non-authoritative material such as the following:</u> <ul style="list-style-type: none"> ○ <u>The Conceptual Framework establishes the concepts that are to be applied in developing IPSASs.</u> ○ Recommended Practice Guidelines (RPGs) <u>applicable to the preparation and presentation of GPFRs</u> to provide guidance that represents good practice that public sector entities are encouraged to follow. ○ 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. ○ Other 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. 	<p>To clarify IPSASB independence in relation to decisions regarding its pronouncements</p> <p>To add the Conceptual Framework as a key document to the IPSASB, and to note distinction between the IPSASBs authoritative documents (IPSASs) and other Material.</p> <p>Minor clarifying edit</p>
<p>The official text of the IPSASs and other publications <u>material</u> is that published by the IPSASB in the English language.</p>	<p>Minor edit because not all documents issued are publications.</p>
<p>34.0—MEMBERSHIP</p> <p>The members of the IPSASB, including the Chair and Deputy Chair, are appointed by the IFAC Board on the recommendation of the IFAC Nominating Committee³, <u>with consideration of advice from the Public Interest Committee (PIC). The appointment as Deputy Chair does not imply that the individual concerned is the Chair-elect.</u></p>	<p>To reflect the PIC role in the IPSASB nominations process.</p> <p>Footnote added to further describe the Nominating Committee</p>
<p>The IPSASB has 18 members, of whom no less than three shall be public members. A public member is expected to reflect, and is seen to reflect, the wider public interest. Members may be nominated by governments, IFAC Member Bodies, the Forum of Firms, public agencies, international organizations, or the general public.</p>	<p>No change</p>

³ The IPSASB is supported by the nominating process as administered by the Nominating Committee. The Nominating Committee is part of the overall governance structure for the SSBs and IFAC. Nomination decisions are made outside of the management structure of IFAC and the SSBs.

<p>The selection process is based on the principle of “best person for the job,” the primary criterion being the individual qualities and abilities of the nominee in relation to the position for which they are being nominated. However, the selection process also seeks a balance between the personal and professional qualifications of a nominee and representational needs, including gender balance, of the IPSASB. Accordingly, consideration will be given to other factors including geographic representation, sector of the accountancy profession, knowledge of institutional arrangements encompassed by its constituency, size of the organization, and level of economic development.</p>	<p>Minor editorial change</p>
<p>IPSASB members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the IPSASB member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in IPSASB debates and attend IPSASB meetings regularly to maintain an understanding of current issues relevant to their role.</p>	<p>No change</p>
<p>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. Observers <u>are expected to</u> may attend IPSASB meetings <u>regularly.</u> They have the privilege of the floor, and may <u>also</u> participate in projects. Observers <u>are</u> expected to possess the technical skills to participate fully in IPSASB debates, and attend IPSASB meetings regularly to maintain an understanding of current issues. The IPSASB will review the composition and role of observers on an <u>periodic</u> basis.</p>	<p>Though not part of the Constitution and Bylaws changes, editorial changes are suggested to clarify the expectations of observers and IPSASB's periodic review.</p>
<p>IPSASB members <u>and technical advisors</u> are required to sign an annual statement declaring they will <u>not submit to undue influence, whether financial or otherwise, which might impair their ability to serve or act as a member or technical advisor with independence, integrity and in the public interest</u> and with integrity in discharging their roles within IFAC. Nominating organizations of members of the IPSASB and the employing organization of the chair of the IPSASB (as applicable) are asked to sign similar independence declarations.</p>	<p>To better reflect all those who sign the annual declaration and to remove the reference to IFAC. Also, the language in the declarations has changes to conform with the revised Bylaws.</p>
<p><u>The Chair of the IPSASB Consultative Advisory Group (CAG) may attend IPSASB meetings, or appoint a representative of a CAG member organization to attend. The Chair of the IPSASB CAG, or appointed representative, has the privilege of the floor at IPSASB meetings.</u></p>	<p>To reflect the establishment of the CAG and set out rights and responsibilities of the CAG Chair.</p>
<p><u>Members of the PIC have the right to attend, or be represented at, all meetings.</u></p>	<p>To note PIC right to attend IPSASB meetings.</p>
<p><u>45.0—The IPSASB Chair</u></p>	<p>To note role of PIC in chair appointment, and arrangements</p>

<p>The <u>IPSASB Chair</u> is selected by the Nominating Committee, <u>with consideration of advice from the PIC</u>, and recommended to the IFAC Board for its approval.</p> <p><u>Where the IPSASB Chair is a remunerated position, IFAC holds a contract for service with the Chair as part of IFAC's support of the IPSASB.</u></p>	<p>where the IPSASB chair is remunerated.</p>
<p><u>5.0—The IPSASB Deputy Chair</u></p> <p><u>The appointment as IPSASB Deputy Chair is considered a leadership position in support of the Chair and does not imply that the individual concerned is the Chair-elect.</u></p> <p><u>In the event of a vacancy, such as by reason of the incapacity, resignation, removal or death of the Chair, the Deputy Chair shall assume the duties of Chair as acting chair, having full power, authority and responsibility of the role of the Chair to manage the Board's agenda and work program until the appointment of an interim or a new Chair.</u></p>	<p>To provide guidance on succession matters</p>
<p>6.0—TERMS OF OFFICE</p> <p>The standard <u>Each term of office for an IPSASB member shall be for a period of not more than three years, with an intention for approximately one-third of the membership rotating each year. A member may serve up to two consecutive terms, for up to an aggregate term of six years.</u></p>	<p>To more accurately reflect current process and situation where a member may be appointed for a term of less than 3 years.</p>
<p>The Chair ordinarily may serve three consecutive terms (as Chair or as a member for one or two <u>more</u> terms preceding the appointment as Chair), for <u>up to</u> an aggregate of nine years. In exceptional circumstances, to be specified by the Nominating Committee, the Chair may serve for one additional consecutive term, for an aggregate term of twelve years.</p>	<p>To reflect situations where appointment terms may be less than 3 years</p>
<p>7.0—MEETING PROCEDURES</p> <p>Each IPSASB meeting requires the presence, in person or by simultaneous telecommunications link, of at least twelve appointed members.</p>	<p>No change</p>
<p>IPSASB meetings shall be chaired by the Chair, or in his/her absence, by the Deputy Chair. In the event of the absence of both, the members present shall select one of their number to take the chair for the duration of the meeting, or of the absence of the Chair and Deputy.</p>	<p>No change</p>
<p>Each member of the IPSASB has one vote which can be exercised only by the appointed member. The affirmative vote of at least twelve of those present at a meeting in person or by simultaneous telecommunications link is required to approve or withdraw Consultation Papers, exposure drafts, IPSASs, and RPGs.</p>	<p>No change</p>
<p>IPSASB meetings to discuss the development, and to approve the issuance or withdrawal of standards or other technical documents are open to the public.</p>	

<p>Matters of a general administrative nature or with privacy implications may be dealt with in closed sessions of the IPSASB; no decisions that would affect the content of the IPSASs and other pronouncements issues by the IPSASB are made in a closed session. Agenda papers for open sessions, including minutes of the meetings of the IPSASB, are published on the IPSASB’s website. The meetings and agenda papers are in English, which is the official working language of IFAC <u>the IPSASB</u>.</p>	<p>Minor editorial change.</p>
<p>8.0—DUE PROCESS</p> <p>The IPSASB is required to be transparent in its activities, and in developing IPSASs to adhere to due process, <u>which is set and agreed based on advice of the PIC. The IPSASB provides the PIC with documentation supporting the application of due process for all new or revised IPSASs before their release. The PIC’s consideration of due process may require the IPSASB to take further steps to address concerns regarding the application of due process, if raised.</u></p>	<p>To note PIC involvement in establishment and application of Due Process.</p>
<p><u>The IPSASB provides the PIC with documentation supporting the application of due process followed to develop the strategy and work plan and obtains the views of the PIC on whether due process has been followed effectively.</u></p> <p><u>In setting its strategy and work plan, the IPSASB also obtains the PIC’s advice on the appropriateness of the items on the work plan, and on the completeness of the strategy and work plan from a public interest perspective. The IPSASB adjusts its final work plan to reflect the public interest views of the PIC or explains to the PIC how it has taken into account its advice. The IPSASB also discusses progress on its strategy and work plan with the PIC on a regular basis.</u></p>	<p>To note PIC involvement in Due Process specifically in regard to IPSASB strategy.</p>
<p>The IPSASB issues exposure drafts of all proposed IPSASs and RPGs for public comment. In some cases, the IPSASB may also issue a Consultation Paper 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 Consultation Papers and exposure drafts in developing an IPSAS or RPG.</p>	<p>No change.</p>
<p>The IPSASB cooperates with national standard setters in preparing and issuing IPSASs and RPGs 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 and RPGs by national standard setters and other authoritative bodies and encourages consultation with users, including elected and appointed representatives; Treasuries, Ministries of Finance and similar authoritative bodies; and practitioners throughout the world to identify user needs for new standards and guidance.</p>	<p>No change.</p>
<p>In developing its pronouncements, the IPSASB seeks input from its Consultative <u>Advisory Group</u> and considers and makes use of pronouncements issued by:</p>	<p>Minor conforming change re: CAG.</p>

<p>(a) The International Accounting Standards Board (IASB) to the extent they are applicable to the public sector;</p> <p>(b) National standard setters, regulatory authorities and other authoritative bodies;</p> <p>(c) Professional accounting bodies;</p> <p>(d) <u>International organizations responsible for the development of statistical bases of financial reporting;</u> and</p> <p>(e) Other organizations interested in financial reporting in the public sector.</p> <p>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.</p>	<p>Changes to note that the IPSASB considers publications issued by the international organizations responsible for the development of the statistical bases of financial reporting.</p>
<p>9.0—CONSULTATIVE <u>ADVISORY</u> GROUP</p> <p>The objective of the IPSASB Consultative <u>Advisory</u> Group (CAG) is to provide <u>input to and assist a forum in which</u> the IPSASB <u>through</u> can <u>consultation with the CAG member organizations and their representatives at the CAG meetings, of different groups of constituents</u> in order to obtain <u>advice on the IPSASB’s agenda and work program, including input and feedback on its work program, project priorities and timetables, major technical advice issues, on projects and advice on other matters of relevance to the activities of the IPSASB.</u> due process and activities in general.</p>	<p>To update ToR's to be consistent with the Remit of the CAG.</p>
<p>10.0—OTHER</p> <p>The IPSASB <u>annual reports annually on</u> <u>outlines</u> its work program, activities and progress made in achieving its objectives during the year. This information is normally included as part of the IFAC annual report.</p>	<p>To update for modified IPSASB annual report process.</p>
<p>The IFAC Board will review the terms of reference of the IPSASB at least every three <u>five years, considering advice from the PIC. The PIC may also on an ad hoc basis provide advice on proposed changes to the terms of reference.</u></p>	<p>To update for the PIC involvement and role in reviewing the IPSASB ToRs. A period of time for review is not mandated, but 5 years is suggested with the opportunity to review more frequently if needed.</p>
<p><u>IFAC provides financial, operational and administrative support to the IPSASB and, if applicable, in consultation with the PIC. IFAC does not interfere with the independent decision-making process of the IPSASB as the IPSASB carries out its public interest function under these terms of reference.</u></p>	<p>To acknowledge the relationship between the IPSASB and IFAC.</p>