



Paris, 5th July 2012

LE PRÉSIDENT

5, PLACE DES VINS DE FRANCE
75572 PARIS CEDEX 13
FRANCE
TELEPHONE : + 33 1 53 44 22 80
E-mail : michel.prada@finances.gouv.fr

Mr. Ethiopis TAFARA, Chairman
of the Monitoring Group

Mr. Eddy WYMEERSCH, Chairman
of the Public Interest Oversight
Board

Piob-MonitoringGroup@ipiob.org

Re: Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB, the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC

Dear Mr. Tafara, Dear Mr. Wymeersch,

The *Conseil de Normalisation des Comptes Publics* (Public Sector Accounting Standards Council – CNoCP) is a public body with responsibility for setting accounting standards in France for public or private entities that engage in non-profit activities and are financed primarily by public funds, including contributions. The Council also takes part in international discussions on standard-setting in the accounting field and responds to all consultations organised by the IPSAS Board. Given its responsibilities and experience in public sector accounting standardisation, the Council felt it should respond to the public consultation on the governance of the entities operating under the auspice of the IFAC as it includes a question on the standard-setting model to be favoured in the future and an other one on the IPSAS Board oversight.

Before answering those questions, the Council believes necessary to make preliminary comments on the procedure followed for choosing an oversight model for the IPSAS Board.

It is mentioned in the consultation paper that IFAC consulted with governments and other stakeholders to seek views on an independent oversight of the IPSAS Board and that at the time two possible models were considered¹. It is also indicated that Public Interest Oversight Board (PIOB) model was supported by a ratio of two to one. Given the importance of this figure, which seems to have led to dropping one of the two models initially considered, the Council regrets that no information was provided on the methods used to select the governments and stakeholders and the individuals interviewed. The Council also regrets that the procedure that was initially considered (an informal consultation of governments and other stakeholders followed by an IPSAS Board's formal consultation on its oversight, proposing two models to the public) was not taken to its term as proposing two models would have allowed more opened discussions.

Concerning the present consultation, the Monitoring Group raises the fundamental question of the evolution of the standard-setting model outside of the IFAC structure in order to reinforce independency. Concerning public sector standard-setting, the Council believes that such a structural change is indeed necessary in the short or medium term. Indeed the Council is concerned about by the lack of institutional and organised implication of public authorities in the standard-setting process spontaneously launched since a number of years, by the IFAC. This opinion is also based on the observation that public sector accounting standard-setting is of a totally different nature than other standard-setting activities operated within the IFAC and requires competencies that go beyond pure auditing and even accounting for private sector. As a matter of fact, the IFAC legitimacy in operating public sector accounting standard-setting is to be seriously questioned.

¹ In France, the IFAC consulted inter alia the chairman of the Council, Mr. Michel Prada. The interview was conducted by Mr. Andreas Bergman, chairman of the IPSAS Board acting as IFAC representative. A letter summarizing the views of the Council was sent to Mr. Andreas Bergman. The present answer to the Monitoring group consultation paper resumes the main opinions expressed in this letter.

It is also to be questioned whether it is understandable that accounting standard-setting for private sector is performed by an independent foundation and that the same activity for public sector is performed under the auspices of IFAC.

Moreover the Council believes that the IPSAS Board oversight by PIOB proposed in the consultation paper is not adequate. This statement is in no way a criticism of the PIOB or its members, whose competence and dedication should be praised. The Council nevertheless considers that relying on PIOB is not the appropriate way to address the specific issues of accounting standard-setting for the public sector. Indeed, the primary users of financial reporting are citizens and their representatives, as was acknowledged by the IPSAS Board in the phase one of its conceptual framework. As a consequence, insuring that the views of stakeholders are sought and considered and that the standard-setting body is accountable for its disposition of that view implies a somewhat totally different organization and competency than the one available in PIOB which is focused and experienced in markets.

As a conclusion, the Council urges for an evolution of the public sector accounting standard-setting model: an appropriate organization should be placed under the auspices of international organizations specialized in the public sector (International Monetary Fund, World Bank and OECD) and funded by public authorities, as it would improve the legitimacy of the standard-setter and therefore its authority.

Yours sincerely,

Michel Prada

Appendix – Answer to questions 2 and 4 of the consultation paper

Q2 : In the long term, would you favour a different and fully independent standard-setting model completely outside the IFAC structure and if so how could such a structure be funded ?

The Council's answer to this question focuses only on public sector accounting standard setting model.

In that field, the Council believes that a structural change is necessary in the short or medium term.

Indeed the Council is concerned about by the lack of institutional and organised implication of public authorities in the standard-setting process spontaneously launched since a number of years, by the IFAC.

This opinion is reinforced by the observation that public sector accounting standard-setting is of a totally different nature than other standard-setting activities operated within the IFAC and requires global competencies regarding public finances management that quite evidently go beyond auditing and even accounting matters (even if technical expertise and financial support of IFAC is an indisputable asset for fulfilling the objective of standard setting in that field). As a matter of fact, the IFAC legitimacy in operating public sector accounting standard-setting and carrying out the responsibilities that ultimately come with public accounting standard-setting in the public interest is to be questioned.

It is also to be questioned whether the “dissymmetry” between accounting standard-setting models for private sector vs. public sector is justified, as accounting standard-setting for private sector is not performed under the auspices of IFAC.

As a consequence the Council urges for an evolution of the public sector accounting standard-setting model : an appropriate organization should be placed

under the auspices of international organizations specialized in the public sector (International Monetary Fund, World Bank and OECD) and funded by public authorities, as it would improve the legitimacy of the standard-setter and therefore its authority.

Q4 : Would you support the IPSASB being subject to PIOB oversight ? Why ? What condition, if any, would you impose on such oversight ? Would you see as a factor to take into account the fact that IPSASB deals with accounting rules instead of auditing ones ?

The Council does not support a PIOB oversight of the IPSAS Board.

This statement is in no way a criticism of the PIOB or its members, whose competence and dedication should be praised.

The Council nevertheless considers that relying on PIOB is not the appropriate way to address the specific issues of accounting standard-setting for the public sector. Indeed, the primary users of financial reporting are citizens and their representatives, as was acknowledged by the IPSAS Board in the phase one of its conceptual framework. As a consequence, insuring that the views of stakeholders are sought and considered and that the standard-setting body is accountable for its disposition of that view implies a somewhat totally different organization and competency than the one available in PIOB which is focused and experienced in markets.

The fact that IPSAS Board deals with accounting rules instead of auditing one is an other factor to be taken into account for choosing an oversight model.

As a consequence, and as already stated in the answer to question 2 above, the Council urges for an evolution of the public sector accounting standard-setting model : an appropriate organization should be placed under the auspices of international organizations specialized in the public sector (International

Monetary Fund, World Bank and OECD) and funded by public authorities, as it would improve the legitimacy of the standard-setter and therefore its authority.