

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARDS BOARD – INTERIM TERMS OF REFERENCE**

(Approved November 2004)

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# **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 18 members, 15 of whom are nominated by the member bodies of IFAC and three 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 up to 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 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:
- (a) The International Accounting Standards Board (IASB) to the extent they are applicable to the public sector;
  - (b) National standard-setters, regulatory authorities and other authoritative bodies;
  - (c) Professional accounting bodies; and
  - (d) 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 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 twelve 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, 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.”

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 provides leadership to the worldwide accountancy profession in serving the public interest by:

- Developing, promoting and maintaining global professional standards and a *Code of Ethics for Professional Accountants* of a consistently high quality;
- Actively encouraging convergence of professional standards, particularly auditing, assurance, ethics, education and financial reporting standards;
- Seeking continuous improvements in the quality of auditing and financial management;
- Promoting the values of the accountancy profession to ensure that it continually attracts high caliber entrants;
- Promoting compliance with membership obligations; and
- Assisting developing and emerging economies, in cooperation with regional accounting bodies and others, in establishing and maintaining a profession committed to quality performance and in serving the public interest.

#### 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;

- Promoting the provision of high-quality services by all members of the worldwide accountancy profession; and
- Promoting the importance of adherence to the *Code of Ethics for Professional Accountants* by all members of the accountancy profession, including members in industry, commerce, the public sector, the not-for-profit sector, academia, and public practice.

### **Providing Leadership and Spokesmanship**

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 155 member bodies and associates from every part of the globe, representing more than 2.5 million accountants in public practice, business and industry, 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 integrity, transparency, and expertise in the accountancy profession, as well as from the support of regional accountancy bodies.

### **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).

IFAC standard-setting boards, described below, follow a due process that supports the development of high-quality standards in the public interest in a transparent, efficient, and effective manner. These standard-setting boards all have Consultative Advisory Groups, which provide public interest perspectives, and include public members.

IFAC's Public Interest Activity Committees (PIACs) – the International Auditing and Assurance Standards Board, International Accounting Education Standards Board, International Ethics Standards Board for Accountants and the Compliance

Advisory Panel – are subject to oversight by the international Public Interest Oversight Board (PIOB) for the accountancy profession (see below).

The terms of reference, due process and operating procedures of the IFAC standard-setting boards are available from the IFAC website at <http://www.ifac.org>.

IFAC actively supports convergence to ISAs and other standards developed by the IFAC standard-setting boards and the International Accounting Standards Board.

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

The pronouncements issued by the IAASB are contained in the 2007 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 *Code of Ethics for Professional Accountants*, developed by IFAC's International Ethics Standards Board for Accountants (formerly the Ethics Committee), establishes ethical requirements for professional accountants and provides a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Under the framework, all professional accountants are required to identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised. A member body of IFAC or firm may not apply less stringent standards than those stated in the Code.

### **Public Sector**

The International Public Sector Accounting Standards Board (IPSASB) develops 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 documents 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.

French and Spanish translations of the 2005 IPSASs are also available for download from the IFAC website.

### **Education**

Working to advance accounting education programs worldwide, IFAC's International Accounting Education Standards Board (IAESB) (formerly the Education Committee) develops International Education Standards, setting the benchmarks for the education of members of the accountancy profession. All IFAC member bodies are required to comply with these 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 IAESB 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>.

### **Support for Professional Accountants in Business**

Both IFAC and its member bodies face the challenge of meeting the needs of an increasing number of accountants employed in business and industry, the public sector, education and the not-for-profit sector. These accountants now comprise more than 50 percent of the membership of IFAC member bodies. IFAC's Professional Accountants in Business (PAIB) Committee develops guidance to assist member bodies 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.

### **Small- and Medium-Sized Practices**

IFAC is also focused on providing best practice guidance to another growing constituency: small- and medium-sized practices (SMPs). IFAC's SMP Committee (formerly the SMP Permanent Task Force) develops papers on topics of global concern and provides input in the development of international standards and on the work of the IFAC standard-setting boards. The committee also investigates ways in which IFAC, together with its member bodies, can respond to the needs of accountants operating in small and medium enterprises and practices.

## Developing Nations

IFAC's Developing Nations Committee (formerly the Developing Nations Permanent Task Force) supports the development of the accountancy profession in all regions of the world by representing and addressing the interests of developing nations and by providing guidance to strengthen the accountancy profession worldwide. The committee also seeks resources and development assistance from member bodies and other organizations on their behalf.

## IFAC Member Body Compliance Program

As part of the Member Body Compliance Program, IFAC members and associates (mostly national professional institutes) are required to demonstrate how they have used their best endeavors, subject to national laws and regulations, to implement the standards issued by IFAC and the International Accounting Standards Board. The program, which is overseen by IFAC's Compliance Advisory Panel, also seeks to determine how member bodies have met their obligations with respect to quality assurance and investigation and disciplinary programs for their members as set out in IFAC's Statements of Membership Obligations (SMOs). The SMOs serve as the foundation of the Compliance Program and provide clear benchmarks to current and potential member bodies to assist them in ensuring high-quality performance by professional accountants.

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

## Regulatory Framework

In November 2003, IFAC, with the strong support of member bodies and 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 the following: more transparent standard-setting processes, greater public and regulatory input into those processes, regulatory monitoring public interest oversight, and ongoing dialogue between regulators and the accountancy profession. This is accomplished through the following structures:

**Public Interest Oversight Board (PIOB)**—Established in February 2005, the PIOB oversees IFAC's standard-setting activities in the areas of auditing and assurance, ethics – including independence – and education, as well as the IFAC Member Body Compliance Program. The PIOB is comprised of eight representatives and two observer members nominated by international regulators and institutions.

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

***IFAC Regulatory Liaison Group (IRLG)***—The IRLG includes the IFAC President, Deputy President, Chief Executive, the Chairs of the IAASB, the Transnational Auditors Committee and the Forum of Firms, and up to four other members designated by the IFAC Board. It works with the MG and addresses issues related to the regulation of the profession.

## **IFAC Structure and Operations**

Governance of IFAC rests with its Board and Council. The 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 take 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**

IFAC makes its guidance widely available by enabling individuals to freely download all publications from its website (<http://www.ifac.org>) and by encouraging its member bodies, regional accountancy bodies, standard setters, regulators and others to include links from their own websites, or print materials, to the publications on IFAC's website. The IFAC Policy Statement, *Permissions Policy for Publications Issued by the International Federation of Accountants*, outlines its policy with regard to copyright.

IFAC recognizes that it is important that preparers and users of financial statements, auditors, regulators, lawyers, academia, students, and other interested groups in non-English speaking countries have access to its standards in their native language. The IFAC Policy Statement, *Translation of Standards and Guidance Issued by the International Federation of Accountants*, outlines its policy with regard to translation of its standards.

This handbook does not contain these policy statements. However, they are available from the IFAC website at <http://www.ifac.org>. The website also features additional information about IFAC's structure and activities.