

## **Comments on IFAC Paper: Public Interest Oversight Board Work Program 2012 and beyond**

### **Q1. Representation of the Public Interest**

**Response:** I consider it necessary to enhance the public interest representation. Currently I feel the public sector which has a significant impact on the public is not well represented in the PIAC, and IPSASB which deals with public sector accounting standards is not covered by PIOB. Recent debt crisis and the global crisis point to more need for monitoring of all sectors including the public sector. The public sector has a significant contribution to the national business environment where the technical and ethics standards are implemented, thus creating a favorable or unfavorable business environment and enabling or hindering implementation of the set standards even by the private sector. National standard setters ability to align national policies and legislation with international standards promotes the adoption and compliance with the international standards.

Hence besides appointment of an independent IESBA Chair there may be need to consider more public sector representation in MG and PIOB and especially those from developing countries. Also bringing IPSASB under PIOB will promote harmonization of standards across all sectors both public and private. Private Public Partnerships (PPP) is a common trend across jurisdictions today and harmonization of standards sets the right atmosphere for these partnerships to succeed for the benefit of all in serving public interest.

In terms of Boards Composition representation of national Treasuries might be a good blend to enhance public interest representation. A good balance for the practitioners and non practitioners in the Boards should still be maintained, the current 50:50 in my view is okay. Other suggestions include more involvement with stakeholders especially national governments (through IFAC Member bodies), representation of regional bodies in MG and oversight bodies like PCAOB and other oversight bodies in the various jurisdictions in the standard setting process ( e.g inputs through exposure drafts and technical papers etc) and monitoring their level of involvement.

### **Q2. Standard Setting Model**

I would not favor a standard setting model that is fully independent and outside IFAC. Even with the current model different countries are at different stages in the implementation of the set standards, hence the role played by IFAC in terms of coordination, support and resource management and knowledge sharing across the various boards and committees is crucial, and moving this out of IFAC would disrupt the implementation of standards globally which is in itself quite complex.

Funding of a model outside IFAC would also be very difficult. Possibly this could be considered in the long term, but not in the short term.

**Q3. Three Tier System:**

I would consider this to be adequate for now and would not recommend any other model.

**Q4. IPSASB subject to oversight**

I would support IPSASB being subject of PIOB oversight. IPSASB focus on public sector has a greater impact on public interest hence the need for PIOB involvement. It would enhance the role of the profession in influencing governance and financial reporting in the public sector.

Conditions that should be imposed on such oversight for IPSASB include: Engagement with Auditor and Accountant General offices at the various jurisdictions and the umbrella bodies like the Supreme Audit Institutions (INTOSAI etc).

It is worth noting that IPSASB focuses on accounting rules ad not auditing rules. However, the IPSAS borrow heavily from IFRS, hence linking IPSASB and IAASB would be another condition in the oversight consideration for IPSASB. The global crisis has demonstrated the level of interdependence of the private ad public sectors hence the need for IPSASB oversight.

**Q5. Compilation document**

I see merit in having a compilation document for the whole structure. The compilation documents to be organized along the strategic objectives of IFAC. The compilation document should show the relationship between the various bodies - MG, PIOB and the PIAC and how these are aligned to IFAC strategy. The compilation document should be made available to the stakeholders, possibly have it at the IFAC website and the websites of the other bodies, and make IFAC member bodies have this in their websites.

**Q6. Name of the Structure**

I would suggest the following name: *Public Interest Monitoring Group of the International Standard Setting Activities for the Accounting Profession.*

**Q7. MG Strategic Role**

I agree MG should have a more strategic role given its working relationship with IFAC leadership and the leadership of the various standard setting bodies. MG plays an oversight role over the other bodies within the IFAC structure, hence giving them strategic direction.

**Q8. MG conferring with PIOB on PIAC agendas and receiving appropriate feedback**

I agree with the proposed objectives. MG commitment to promote public interest would necessitate conferring with PIOB on PIAC agendas to ensure public interest. MG receiving appropriate feedback is crucial for them to fulfill the strategic role.

**Q.9. Improving MG Communication Activities**

I agree with the suggested ways of improving the communication activities. MG direct involvement with PIAC on special occasions would be ideal but not on a regular basis to avoid independence issues given the strategic role of MG

**Q10. Liaison with Investors**

Liaison between MG and investor groups should be improved. I see merit in public attendance of some portions of MG meetings. It might also add value for MG to interact with regional and national organizations involved in standard setting.

**Q11. MG engaging with organizations representing government institutions**

It would be useful for MG to engage with organizations representing governmental organizations. G20 alone is not enough and other national and regional bodies need to be involved.

**Q12. Current Composition of MG**

Other organizations like regional and national regulators could be represented in MG. There should be a set criteria for a new member body to meet before joining MG. Such criteria could include their ability to participate in funding IFAC activities, having technical and leadership capability to support the various IFAC initiatives, as MG is like the Board of the directors in the organization charged with high level decision making at a global level.

There should be a maximum number for MG members to avoid too large a group that can be difficult to manage and slow down decision making, hence making it ineffective.

Currently I would propose a change in the way the Chairperson is identified, given the role of IOSCO currently, but in the future with a different composition of MG and PIOB and possibly less dependence on IOSCO the Chair person can be appointed from any other body represented in the MG.

**Q13. MG appointing full time employees of MG organizations in PIOB**

Yes I see a problem with this as there is potential conflict of interest given MG's control in these organizations. Given the sensitivity of the PIOB oversight role the process of

appointments in PIOB should be free of any biases like would arise if MG is involved in appointing full time employees of MG members. Again as full time employees of MG they may not devote sufficient time to PIOB activities.

**Q14. Hierarchical relationship between PIOB and Members**

I would consider it convenient for MG members to avoid direct hierarchical relationship with PIOB to avoid conflict of interest situations.

**Q15. Roles of MG and PIOB**

I am happy with the role descriptions of MG and PIOB at it is and have no recommendation on changing or clarifying this. I think it is clear.

**Q16. PIOB undertaking regular review of its due process and oversight framework**

I see merit in such a review being done. This is necessary given the changing conditions and environment where the standards are implemented. Such a review will bring out emerging areas that need attention and also change in strategy, depending on the priorities arising from these changes, hence possible re-direction of resources to address emerging and new risks not previously anticipated and planned for.

**Q17. PIOB producing a strategy document to supplement the yearly business plan and budget**

Yes I see merit in PIOB producing this strategy document. This document would be like a score card to establish the status of implementation of the PIOB strategy and the same is compared with the yearly business plan and budgets to ensure prioritizing of activities in the plan and budgets.

MG should be involved on a consultative and advisory role in the preparation of this strategy document.

**Q18. Current Composition of PIOB**

I would not consider it necessary for PIOB composition to be reviewed every time there is a new body becomes a member of MG. This is because the interests of the new body may already be addressed by PIOB through other bodies already represented in PIOB. This would happen especially where there are regional bodies as members of MG and a new body happens to be catered for by the regional body. Again for continuity of projects and smooth running of PIOB, given its sensitive work there is need for disruptions to be kept to a minimum and such regular reviews of the composition of PIOB would be quite disruptive.

**Q19. Current Composition of PIACs**

I would consider the current composition of PIAC appropriate, with a good balance of practitioners and non-practitioners. Having more public members who may not be directly involved with the implementation of the standards may not be very beneficial to the standard setting process.

**Q20. Rotation for CAG Member Organizations**

I am not too sure whether 9 years is the best practice for rotation of CAG members. However, I expect that before arriving at this number of years some research had been done to support 9 or other number close to this. Given that projects in the standard setting process take quite some time, even years and PIAC members rotate quite often given the period they are in the Board is limited it is important to have CAG members not rotated for at least over two terms for Board members (6+ years), hence 9 years appears quite reasonable to allow for continuity of projects and smooth running of IFAC.

**Q21. Funding of the Standards Setting Activities**

I agree it may not be realistic to change the funding structure of the standard setting activities at the moment. With the current funding through IFAC continuity and smooth running of the standard setting activities is guaranteed and any significant change to the funding structure could be disruptive and not serve public interest in the best way possible. In future other funding models could be considered and planned for.

**Q22. IFAC finances the large part of PIOB Budget**

I would suggest that IFAC finances a large part of PIOB budget. In the meantime IFAC could organize for fund raising even through the MG member bodies, and explore other funding arrangements both in the short term and long term. But to ensure the continuity of the standard setting activities it is important that IFAC continues funding the larger part of the PIOB budget.

**Q23. PIOB Funding Structure similar to that for IFRS Foundation**

Funding for PIOB similar to the one for IFRS Foundation could be considered. If the IFRS Foundation model has worked then it makes sense to borrow from this and modify as appropriate given the experiences with IFRS Foundation Model.

**Q24. Permanent Secretariat for MG**

There is merit in having a permanent secretariat for the MG. IOSCO need not be the one to provide the resources for the secretariat. Any of the other member bodies of MG could provide these resources to reduce overreliance on IOSCO.

## **Q25. Governance of International Auditing, Ethics and Education Standards Processes on Audit Quality**

Yes the governance of the standards setting processes impacts on Audit Quality, since these standards have a direct impact on the skills and competencies of the auditors and the audit methodologies/process adopted by auditors. The auditing standards also guide the Quality Reviews.

- Composition of the boards and the background and experiences of the members - this would impact the audit quality
- Monitoring Process of the standards setting process - this too would impact the audit quality
- Stakeholders involvement - consultation with stakeholders like the PCAOB and other Oversight bodies and Audit Regulators for their input on common areas of weaknesses in audits.

Main objectives those charged with governance should take into account:

- User Needs - investors, lenders, creditors and others should be taken into consideration in the standard setting to enhance quality of audits.
- Public Interest - to enhance credibility of the profession hence confidence in the profession public members, regulators and other interested parties need to be involved in the standard setting process at different levels.
- Specialization - involvement of industry specialists may need to be considered in the standards setting processes especially on standards that are specific to certain industries, for instance IFRS 4 on Insurance Contracts and other industry specific standards.
- Adaptability in different environments - involvement of people from different jurisdictions in the standards setting process enhances audit quality as practical difficulties encountered in different environments can be considered and a common approach adopted.

## **Q27. Current levels of Empowerment and Responsibility of MG, PIOB and PIAC**

I do not have much experience and interaction with these bodies but through this document and the IFAC reforms and experience with IESBA so far I would consider the empowerment and responsibility of these bodies appropriate but feedback from these bodies in terms of how they work would help in making a fair assessment of the adequacy of their empowerment and responsibility. Some kind of self assessment by each of these bodies, coupled with assessment by the other bodies would be good feedback on which to base that assessment.

## **Q28. Overall Structure and Improvement to Audit Quality**

I would suggest the overall structure accommodating audit regulators to be considered as this would improve audit quality.

Financing could be enhanced by involving member bodies of IFAC and Professional firms.

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N.B These are my personal views