



The Edinburgh Group  
c/o Stephen Heathcote, Secretary – Edinburgh Group  
2 Central Quay  
89 Hydepark Street  
Glasgow  
G2 8BW  
United Kingdom

The Monitoring Group  
c/o International Organization of Securities Commissions  
Calle Oquendo 12  
28006 Madrid  
Spain

Sent via email: [Piob-MonitoringGroup@ipiob.org](mailto:Piob-MonitoringGroup@ipiob.org)

28 June 2012

**Public Consultation on the Governance (with special focus on organisational aspects, funding, composition, and the roles) of the Monitoring Group, the PIOB, and the standard-setting boards and Compliance Advisory Panel operating under the auspices of the International Federation of Accountants (IFAC)**

The Edinburgh Group (EG) is pleased to have the opportunity to provide its views on the Monitoring Group (MG) public consultation.

The EG is a global alliance of 13 accountancy bodies which aims to champion issues facing professional accountants in business, small medium-sized enterprises (SMEs), small medium-sized accountancy practices (SMPs) and developing nations within the International Federation of Accountants (IFAC). We represent approximately 800,000 professional accountants across the world. We aim to ensure that all sectors of the accountancy profession are represented in IFAC in a proportionate, balanced manner and that the diverse character of the profession is reflected in its work. We also collaborate and engage with influential organisations to promote key issues.

### **General Comments**

We note that less than two years ago the MG presented its report on the effectiveness review with a series of proposals, considered by the IFAC Council and Board. Various proposals and actions have been accordingly implemented. Overall, the MG expressed satisfaction on the structures and models that were in place. Our understanding is that the current consultation is driven by the considerations and doubts on the appropriateness of the same model to provide effective assurance in the current economic climate. It is also a consultation that

is more self-regarding, dealing with the structure and governance of the MG itself.

The consultation paper appears to consider the perspective of financial markets and investors relating to statutory audit and assurance as an area of intervention for the MG, IOB and PIACs. There are other domains of standard setting, which directly involve the activities of professional accountants, which are not addressed by the MG, IOB or any other oversight system. As activities are highly differentiated across countries and jurisdictions, and as the accountancy profession has a differentiated market structure, the linkage between oversight structure (and their governance arrangements) and standard setting process is not limited, in terms of the public interest, to the financial markets.

The EG has chosen to respond to selected questions and consequently addresses issues that it considers most relevant and important to be highlighted.

**Q1: Do you consider it necessary to enhance representation of the public interest? In that case, which additional actions, apart from the appointment of an independent IESBA Chair and redefining the nature of non-practitioner board members, would you suggest to reinforce the mechanisms to safeguard the public interest?**

The EG is of the view that the concept of public interest should be a broader one. The public interest concept addressed within IFAC, PIACs, the MG and IOB tends to focus on the dynamics and needs of regulated market stakeholders. The EG is of the opinion that, particularly in light of the global financial crisis, more focus should be on all economic and financial trade relationships, including SME related ones, which represent over 90% of the economic market. Use of, and reliance on, financial information and related standard setting and governance arrangements should be measured using this broader concept. In addition, the output of the PIACs, as continually stated by IFAC, is relevant not only to Listed and Public Interest Entities but also to SMEs and SMPs. Our concern is that this relevant sector is not included in the MG radar. We feel that more should be done to ensure effective representation of SMPs, as the very experts of the SME sector, on the PIACs, beyond the formal classification of certain members as 'practitioner' or 'non-practitioner', for the sake of public interest.

**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 EG fully supports the view that standard setting activity should be a shared private and public sector process. Standard setting, unlike any other statutory or

regulatory activity attributed to national or supranational legislators, is essentially a self-regulation activity.

We believe that the issue at stake is not whether standard setting needs to be allocated within or outside IFAC, as proposed in the consultation paper. We fully support that the standard setting model rests within the current structures of IFAC and we believe that full effectiveness would be achieved in fully implementing the IFAC 2010 SMP/SME review recommendations so that a “think small first” approach would be adopted to include the SME sector as an integral part of the public interest concept.

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

and

**Q22: Do you consider appropriate that IFAC finances the largest part of the PIOB budget? If not, do you consider appropriate that IFAC launches an external fundraising having some contributions of the MG members in the mean time?**

The EG would welcome the consideration of independent oversight of IPSASB and consequently external funding being made available. It is fundamental that the process is shared with the widest possible range of regional, national and international public entities and organisations. The key issue is not the extension of a procedural oversight, as would be the one of PIOB and MG, but an effective extension of the participants, directly or indirectly through the introduction of a CAG. The EG considers the assurance provided on ‘due process’ as less critical and does not see the direct benefit of a significant increase in the overall societal cost. Furthermore, it should be acknowledged that the PIOB could have a credibility issue as the current composition does not reflect the public sector. In order to address important public interest issues, some expertise in the public sector is essential.

This leads us to the second aspect related to the funding mechanism. As mentioned above, the EG considers the funding mechanisms of the IFAC Boards and CAGs as a critical issue. There is no doubt that independence (and therefore quality) is also measured by the level of contribution to a specific activity. For IPSASB, alternative funding sources, to integrate the share advanced by IFAC, must be urgently considered. The fact that governments and public entities are not willing to pay and participate financially should be seriously questioned.

**Q13: Do you see a problem in MG members appointing full time employees of organisations represented in the MG as PIOB members?;**

**Q14: Would you consider convenient to avoid direct hierarchical relationship between the PIOB and the MG members?;**

**Q15: Do you think that the roles and responsibilities of MG and PIOB should be further clarified? Do you have specific suggestions regarding which areas this clarification should address?;**

**Q16: Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?;**

**Q17: Do you see merit in the PIOB periodically producing a strategy document that would supplement the yearly business plan and budget? What should the involvement of the MG be in the production of these documents?;**

**Q18: Do you think that the current composition of the PIOB could be enhanced? Would you consider convenient that the PIOB's composition is reviewed each time a new body becomes a full member of the MG?**

And

**Q24: Do you see the need for and/or merit in having a permanent Secretariat for the MG? In this case, do you think IOSCO should provide resources for a permanent Secretariat to the MG?**

Regarding all aspects proposed in the above questions, the EG expresses its concern that the proposals, if implemented, would result in over-structuring of the entire standard setting process. It is important that the main focus and spending level remains at the level of the Board and the development of the standard. Two or more highly structured layers would lead to a significant increase in costs which are barely covered by the expected additional investors' assurance. The MG considers the various boards on an equal level yet in the EG's view there is a difference between the boards. Education and Ethics are aspects which obviously impact on the quality of the service provided, but the standard setting in these areas requires a different set of experience and does not necessarily require additional and more complex monitoring and oversight assurance.

We do not see any need to change the management structure of the MG.

**Q21: Would you agree that it is not realistic at the current time to attempt to alter the funding structure of standard setting activities in any substantial fashion?**



We consider inappropriate to attempt to change the funding structure of standard setting activities under the current uncertain circumstances. However, every effort should be made to obtain further funding from public stakeholders and the expected decrease in funding to PIOB from the EC is a matter of concern.