



Mr Fernando Restoy
Chair, Monitoring Group
By E-mail: Piob-MonitoringGroup@ipiob.org

29 June 2012

Dear Mr Restoy

Public Consultation on the governance of the Monitoring Group, the IOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC

We appreciate the opportunity to comment on this consultation paper from the Monitoring Group ('MG') of regulatory and international public interest organisations. As a network, we are committed to promoting the consistent application of high quality audit practices worldwide in the public interest, and welcome the Monitoring Group's review.

This response summarises the views of member firms of the PricewaterhouseCoopers network who commented on this consultation document. "PricewaterhouseCoopers" refers to the member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

We have considered all 28 of the questions in the MG's consultation paper and where we have specific views to contribute, these are included in the Annex to this letter. In this covering letter we provide some overall observations on what we believe to be the more important issues raised by this review. We have responded by separate letter to the IOB on its consultation '*IOB Work Programme 2012 and Beyond*', though where relevant in this letter we have indicated where there is overlap in our responses to both documents.

Enhancing and communicating the attributes of the current model

It is a relatively short time since the MG's review of 2010 – indeed the impact of some of the changes recommended as a result of that prior review is still to be felt. We believe the emphasis at this stage should be on: (i) reinforcing the present structures to meet current stakeholder

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expectations and needs; and (ii) better communicating the strengths of the current oversight model. We further elaborate on these points below and in our detailed responses.

The present three-tier structure is appropriate and already embodies significant due process and oversight steps. We would not, for example, advocate merging the activities of the PIOB and MG, since this would confuse their respective oversight and monitoring roles and would risk greater politicisation of standard setting. The aim should be to communicate better the positive attributes of the current structure, while considering how stakeholders' confidence in the arrangements can be enhanced further. In particular, as noted in our response to Questions 1 and 19 and in our separate response to the PIOB's consultation, we believe the MG and the PIOB could themselves do more to better communicate the robustness of the current public interest oversight regime. Having satisfied themselves as to the integrity of the standard setting model we consider that they could act as advocates for the independence and rigour of the process. Our response to Question 1 provides a few additional ideas for how the present arrangements could be enhanced.

Longer term considerations

The present IFAC standard setting structure was designed in the context of the wider global architecture in which it operates. We believe the current structure delivers high-quality standards in the context of the financial reporting, corporate governance and regulatory norms that currently prevail in the capital markets.

But the international architecture and public expectations continue to evolve. We would welcome a further review in 4-5 years time that takes a fresh look at the options for how the international standard setting activities are organised. Such a review could be informed by a set of principles or desired attributes of any standard setting regime (including those areas of strength of the present IFAC model). We also believe it would be useful as part of such a review to examine how different roles and responsibilities are discharged under the IFRS Foundation structure, for example in relation to activities such as nominations and funding.



We would be delighted to discuss our views further with you. If you have any questions in the meantime regarding this letter, please contact Graham Gilmour (+44 207 804 2297), Diana Hillier (+44 207 804 0472) or myself (+44 207 212 4658).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Dilks', written in a cursive style.

Ian Dilks
Global Leader – Public Policy and Regulatory Affairs

PwC detailed responses to the questions in the Monitoring Group consultation

1. Do you consider it necessary to enhance representation of the public interest? If so, 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 considerations may be different as between the various standard setting boards ('PIACs'). We believe all the boards currently operate independently in the public interest and have high-quality due process. However there are also perceptions and there may be a greater perception of lack of independence in relation to IESBA (which sets standards for ethics and independence for professional accountants) than for IAASB and the other standard setting boards which set technical standards for how audits are performed. It is therefore reasonable to ask if more could be done to address the perceptions regarding IESBA.
- The balance of individuals on each of the boards currently is good, taking into account also the refinements agreed as part of the MG's 2010 review (appointing an independent IESBA chair and redefining the nature of non-practitioners). We believe that the background and experience of members can be an important reinforcing mechanism in safeguarding the public interest and, therefore, focussing on ways to make service on the boards attractive to the highest calibre candidates is important. Given the nature of the IESBA's remit, in particular, the aim should be to attract both practitioners and non-practitioners with the broadest and most senior levels of experience who command widespread respect not only for their significant experience but also for their general knowledge and realism.
- As noted in our response to the 2010 review, we consider that technical advisors play an extremely important role in the work of the boards and their project task forces (while respecting the principle that only board members have the automatic right to speak in meetings of the boards). Hence, in a similar way, we urge that the role of technical advisor should be made to remain attractive to ensure that the highest quality individuals continue to be willing to be involved.
- The Consultative Advisory Groups (CAGs) form an important part of the PIACs' overall due process and consultative efforts. More thought could be given to enhancing the transparency of the CAGs themselves (for example, the nominations process and the transparency around the CAGs' deliberations and how CAG views are dealt with by each board.)
- In addition, as noted also in our response to Question 19 and in our response to the PIOB's consultation, efforts to reinforce and better communicate the robustness of the



current public interest oversight regime would help to address perceptions of lack of independence. Indeed, we suggest the PIOB (and its member organisations) should go further and accept responsibility for the integrity of the standard setting process and that PIOB should attest publicly as to the independence and rigour of the process.

2. 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?

- We believe the emphasis should be on reinforcing the present structures to meet current stakeholder expectations and needs.
- The present structure already embodies significant due process and oversight steps and the aim should be to communicate better the positive attributes of the current structure, while considering how stakeholders' confidence in the arrangements can be enhanced further. If the present oversight and monitoring roles played by the PIOB and MG respectively help to build the confidence of public authorities in the standard setting regime, then what might be done to make them still more effective?
- As noted in our response to Question 19, the current structure is connected to the global architecture of financial reporting, corporate governance and regulation. As that architecture evolves in the light of changing expectations, so should IFAC's standard setting arrangements. We would support a further review in 4-5 years time (as we believe IFAC and the MG each plan to do). In preparation for such a further review different models could be evaluated against a set of desired attributes, such as: independence; transparency; inclusive due process; public interest oversight; and broad-based, stable funding.
- We also consider that, should there be any further discussion of alternative models in the longer term, regard should be had to the mechanisms by which the standards are implemented around the world. The IFAC structure and membership organisation provides an important link to the profession internationally and a mechanism by which the standards are 'socialised' and implemented in different countries via the membership obligations of the professional bodies. If some alternative structure for standard setting outside IFAC was conceived, it would be necessary to consider how the resulting standards would be communicated, implemented and enforced on a global basis.

3. Do you consider the current three-tier system (MG+PIOB+IFAC PIACs) adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?

- In deciding whether to adopt IFAC's standards, stakeholders need to have confidence in the arrangements for governance of standards setting, and a simple and easily understandable structure will help to engender trust.



- A feature of the current model is that while the standards setting process takes place within the three-tier governance structure of the MG+PIOB+PIACs, the funding flows through a fourth tier, IFAC itself. This brings added complexity.
- We observe that in the equivalent three-tier structure for international accounting standard setting (Monitoring Board, Trustees and IASB), the roles of nominations and fund-raising role are performed by the Trustees. We believe that as part of the any longer term discussion of alternative models, as discussed under Question 2, it may be helpful to consider the respective roles and responsibilities of the structures that have evolved around the IASB since it was reconstituted in 2001.
- We would not advocate merging the activities of the PIOB and MG, since this would confuse their respective oversight and monitoring roles and would risk greater politicisation of standard setting.

4. Would you support IPSASB being subject to PIOB oversight? Why? What conditions, 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?

- International Public Sector Accounting Standards are significant since they can form the basis of the accounts prepared by government institutions that are provided to citizens (we note that Eurostat has recently consulted on whether IPSASs should be adopted by EU member states' governments).
- Hence, given the importance of IPSASB's output, the standards should be of demonstrably high quality and developed having regard to the public interest. IPSASB should therefore have a similar level of robust due process and governance over standard setting to that enjoyed by the other IFAC PIACs (and by the equivalent IASB that sets standards for the private sector).
- If the PIOB were to add oversight of IPSASB due process to their mandate, the composition of the PIOB would need to be amended, as noted in our response to Question 18.
- We would envisage that the fresh look at the options for how international standard setting activities are organised that we refer to in our covering letter would include consideration of IPSASB, given its unique mandate and stakeholders.

5. Do you see merit in a having a 'Compilation document' for the whole structure? In this case, which alternative would you prefer for organising the structure and nature of the Compilation document?

- Yes. Moreover, we believe such a compilation document should be approached from the perspective that it can be used in outreach efforts with stakeholders - to explain the benefits of and build confidence in the structures.



6. Given the breadth of the current mandate, would you consider it helpful to modify the name of the structure to improve its visibility? In this case, what name would you suggest?

- We have no particular views on this question.

7. Do you agree with the proposal that the MG should have a more strategic role?

8. Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIAC's agendas and receiving appropriate feedback?

9. Do you agree with the suggested ways of improving the communication activities? Would you consider it useful for the MG to have in the special occasions above described direct involvement with the PIACs?

- We consider these three questions to be related and hence have answered them together.
- It is important for the standard setting boards to understand the issues that stakeholders are concerned about. The organisations represented in the MG are important stakeholders, and therefore there should be appropriate channels through which the views of MG members are heard.
- Taking the analogy of the IASB model, it would be appropriate for the MG to input views via the PIOB (in the same way as the Monitoring Board can input views via the IFRS Foundation Trustees), but not to have direct involvement with the PIACs in order to direct them regarding issues they should consider.
- The MG will rightly have views on the PIACs' work agendas and these should be input along with the views of other stakeholders, but ultimately it should be for the PIACs to determine their strategy and work priorities and explain the reasons for their decisions.
- Providing the MG with a more strategic role would confuse and undermine its monitoring role, and would risk politicisation of the standard setting process.

10. Do you have any specific suggestions on how liaison with investors could be improved? In this sense, do you see merit in some portions of the MG meetings having the public in attendance?

- It would be appropriate for relevant parts of MG meetings to be held in public (as is currently the case for the equivalent meetings of the Monitoring Board with the IFRS Foundation Trustees).
- Liaison with investors should be dealt with separately, through the PIACs' normal channels of outreach and consultation (for example through the CAGs, holding roundtables on specific topics, etc).



11. Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate or should other bodies be considered instead?

- To some degree, the organisations comprising the MG are already reflective of the views of the national governments that contribute to their decision-making and their formulation of positions.
- If some more formal link with the G20 was considered desirable, this might take place via the Financial Stability Board which already has a role in advising the G20 in relation to international standards and regulation.

12. What is your opinion about the current composition of the MG? (i) Do you believe that other organisations should be represented in the MG? If so, which criteria do you think new members should fulfil to become MG members? (ii) Should a maximum be set to the number of MG members? (iii) Would you favour a change on how the chairperson is appointed?

- The most important thing is that the arrangements for governance of standard setting inspire the confidence and support of stakeholders, including governments and regulatory authorities. Beyond that, we do not have specific views on the detailed composition of the MG or on how its chairperson is appointed.

13. Do you see a problem in MG members appointing full time employees of organisations represented in the MG as PIOB members?

- We have no particular views on this question provided that full time employees are able to have the necessary time available to devote to the PIOB's activities.

14. Would you consider it convenient to avoid direct hierarchical relationship between the PIOB and the MG members?

- We have no particular views on this question.

15. 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?

- Yes, we agree that further clarification of the respective roles would be helpful and beneficial. This might be best done through the 'compilation document' referred to in Question 5.



16. Do you see merit in the PIOB undertaking a regular review of its due process and oversight framework through its strategy document?

- Yes, it will be appropriate to evaluate due process against ‘best practice’ at regular intervals.

17. 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?

- It will be appropriate for PIOB to review its strategy against current needs and expectations at regular intervals. However, there is a risk that this becomes a bureaucratic annual process of document preparation – the Board’s strategy should be reviewed when the need arises.

18. 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?

- We believe the PIOB in its current composition has operated relatively well and, while this is a matter for the MG to decide, we do not see any compelling need to significantly alter the composition.
- As noted in our response to the PIOB consultation, we consider that the PIOB chair and members could play a greater role in outreach and communication regarding the benefits of the current oversight structure. This is something that could be taken into account when considering appointments of PIOB members.
- If the PIOB was to play a future role in overseeing the due process of IPSASB, then this would have an impact on the experience and attributes needed among the PIOB membership.

19. Would you consider the current composition of the PIACs appropriate? Do you see merit, in the context of a second effectiveness review, in exploring the idea of a majority of non-practitioners and a majority of public members?

- As noted in our response to the MG’s 2010 review, we believe the quality of the standards produced relies on having the right people and best minds at the table. Standard setting is a technical activity and we therefore consider it valuable that practitioners with current experience in the field are involved in standard setting. Auditing professionals are trained in disciplines such as objectivity and therefore are able to examine proposals with the appropriate degree of balance and rigour.
- Both practitioners and non-practitioners should be involved, but the single yardstick that should be applied when making appointments is: Will the involvement of a particular



candidate enhance the quality of discussion at the Boards and the quality of the resulting standards? There are a number of ways to design a standard setting process to achieve the aim of obtaining high quality output. It is not simply a matter of composition of board members. Provided there is appropriate oversight by the PIOB and appropriate monitoring by the MG, then it should not in fact be necessary to alter the balance of practitioners and non-practitioners on the boards. If the intention is to dispel the perception of a lack of independence, then one solution would be to reinforce and communicate the robustness of the oversight regime. In addition, as discussed in our response to Question 1, the aim should be to attract both practitioners and non-practitioners with the broadest and most senior levels of experience.

- Consideration could however be given to providing greater transparency regarding how the nominations process for the PIACs works (while still providing anonymity for individual candidates being considered). As noted in our response to Question 3, we observe that under the equivalent three-tier structure for international accounting standards setting, it is primarily the responsibility of the Trustees to deal with the appointment of IASB members. In connection with any longer term evaluation of alternative models, as discussed under Question 2, it may be helpful to consider how nominations are handled in other comparable standard setting environments.

20. Do you consider best practice a nine years period for the rotation of the representatives of CAG member organisations?

- Regard should be had to best practice in equivalent bodies. Our understanding is that representatives of the IASB Standards Advisory Council serve a maximum of two three-year terms. Similar to our views in response to Question 19 on the composition of the PIACs, however, we believe that overarching aim should be to have the right people and best minds at the table.

21. 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?

22. 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?

23. Do you think it feasible to have a similar funding structure in place for the PIOB to that in place for funding the IFRS Foundation?

- We consider these three questions to be related and hence have answered them together.
- We believe there should be broader participation in the funding regime.
- Although the stakeholders for the output of IFAC's standard setting activities differ from those of the IFRS Foundation, we believe the overall objective should be the same – to establish a stable funding mechanism that will be sustainable for the long term and which will attract the support and confidence of stakeholders.



- In common with the IFRS Foundation, we believe principles could be devised to guide the design of the funding regime. For example, the system should: be transparent; build in inflationary rises; be independent of the political process; and be free from perceived conflicts of interest.
- In our view the MG should play a more active role in helping to facilitate a stable funding strategy and mechanism, at least in relation to the PIOB, for example by encouraging national public authorities to assist in fund-raising efforts that meet the guiding principles.
- Establishing such a sustainable funding regime will inevitably take time. In the meantime, we believe the current funding structures will need to continue.

24. 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?

- Until a broader-based, stable and long-term funding mechanism as discussed in our response to Questions 21-23 above is in place, we do not believe a permanent secretariat should be established for the MG.

**25. How do you think the governance of international auditing, ethics and education standards setting process could improve audit quality? What are the main objectives that those responsible for governance should take into account?
26. What is your opinion about the current structure? Do you think the current structure is appropriate in order to improve audit quality? If not, what changes, suggestions or remarks would you propose?**

- We consider these two questions to be related and hence have answered them together.
- The questions presume that the standards setting process and its governance and structure are the drivers of audit quality. However audit quality is ultimately a product of a whole range of factors, including also the application and implementation of standards by auditors in the field, the environment within which audit takes place (including cultural and corporate governance factors that are not within standard setters' or auditors' control) and the monitoring and enforcement regimes deployed by audit regulators.
- In relation to the standard setting component, the most fundamental determinant of quality is having the right individuals involved in the standard setting boards in the first place. Governance and oversight can improve engagement of key stakeholders in the standard setting process and stakeholders' confidence in the process, but the key is to ensure that the best candidates want to be involved in standard setting.

27. Do you agree that the current levels of empowerment and responsibility of the bodies that comprise the current structure (MG, PIOB, PIACs) are appropriate? If



so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how could these levels of empowerment and responsibility be improved?

- As noted in our response to Question 1, the Consultative Advisory Groups (CAGs) are relatively influential and form an important part of the PIACs' overall due process and consultative efforts. More thought could be given to explaining the role and responsibilities of the CAGs and enhancing their transparency (for example the nominations process and the transparency around the CAGs' deliberations and how views of CAG members are dealt with by each board.)
- Some organisations are represented at multiple levels in the structure, for example as members of CAG and the PIOB and MG. It should be made clear what role those organisations' representatives are able to exercise in the different capacities.

28. Do you think that there is any other overall structure that could achieve improvement in audit quality more efficiently? If so, what could they be and how might they be financed?

- Please see also our response to Question 2.
- The IFAC standard setting structure should be viewed against the background of an increasingly globalised world where other international organisations are also developing. For example, the G20 grouping of major developed and emerging economies and the international architecture around financial stability are both works in progress. Until there maturity is reached in comparable global structures, it is difficult to suggest an ideal regime for international audit standard setting.
- In the meantime, we believe the current structure is delivering high-quality standards in the context of the financial reporting, corporate governance and regulatory regimes that currently prevail in the capital markets.
- The Monitoring Group could consider what other aspects of the global architecture need to develop further in order to move standard setting to any different structure – and take a lead in discussions with other organisations about how to progress that development.