



9 July 2012

The Monitoring Group  
c/o International Organisation of Securities Commissions  
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Dear Sir/Madam

**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 IFAC**

#### Introduction

1. ICAEW, ICAS, CIPFA and Chartered Accountants Ireland would like to take the opportunity to comment on the above consultation document issued by the Monitoring Group on 28 March 2012.

#### About This Response

2. The parties to this response are four UK and Republic of Ireland chartered professional accountancy bodies. These bodies work collectively on behalf of the profession in the UK to promote the public interest on matters within the sphere of the profession and its members on an international basis. Each body may also submit their own response to the consultation in order to emphasise certain areas that are of particular interest to them.
3. The combined membership of the four bodies amounts to 192,000 accountants world-wide. Our memberships span all sectors of the profession – members in business, the public and third sectors and audit practice. All four bodies are members of the International Federation of Accountants (IFAC).
4. **General Comments**
  - 4.1 We answer the specific questions posed in the Consultation Paper below. There are three key aspects to our response – the public interest, technical expertise and cost/benefit.
    - The purpose of the current, and proposed, arrangements must be the issuance of high quality standards based on public interest considerations.
    - It is imperative that such high quality standards are regarded as workable, reasonable and legitimate by those that use them if they are to be adopted and implemented on a global basis in a consistent manner. We are of the view that technical expertise and competence, and experience that is current, are essential features of the standard setting process which can only be provided by practitioners. We recognise the importance of

ensuring an appropriate membership on the PIOB (and the MG) and the positive role to be played by lay members on the PIACs, and the need to avoid the perception that the profession has too much influence. At the same time we are confident that practitioner members on the PIACs have demonstrated their commitment to working in the public interest; the importance of this contribution should not be diminished in these times of continuing economic uncertainty.

- Finally, it is crucial that the cost/benefit of these arrangements is fully understood and accepted by the major stakeholders and that any changes are adequately resourced.

4.2 We note that IFAC has provided some clarification of the language used in the Consultation Paper in the Appendix to their response. We find this helpful.

## 5. Responses to Specific Questions

**Q1:** 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?

**Response:** It is our view that the current arrangements for representation on the PIACs, and the proposals for an independent IESBA Chair and redefining the nature of non-practitioner board members, sufficiently protect the representation of the public interest. Care should be taken that any efforts to redefine the nature of the board memberships do not adversely impact on the quality and currency of the expertise on the PIACs.

The PIACs are each very different in the way they operate and the activities they undertake, and the way and extent to which they operate in the public interest. The PIOB also clearly regard them as having different levels of public interest in the way in which they approach them. We suggest that there could be benefits from a closer analysis being undertaken of each, rather than grouping them all together in a single discussion. Such an analysis should consider value for money as well as public interest.

There is a need to clarify the respective roles and responsibilities of those parties currently undertaking representation of the public interest – i.e. public members, PIOB observers attending PIAC meeting, the PIOB as a whole, and the MG.

There appears to be an underlying assumption in the Consultation Paper that only lay members serve the public interest. We reject such an assumption. All professional accountants are required to work in the public interest and, indeed, PIAC Board (and IPSASB) members, when appointed, undertake to work in the public interest, irrespective of any affiliation to a member body or a firm. The associated difficulty of securing the services of true "non-practitioners", on a volunteer basis, who can contribute in a meaningful way to standard setting (particularly in auditing) needs to be recognised.

We do not agree that there should be more lay members on the Boards - experience and expertise in the subject matter is vital for effective standard setting. We support the blending of high quality practitioner input with lay member representation under effective public interest oversight as being the

most effective and efficient model. More lay members will result in increased costs, not least for additional technical adviser support.

**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?

**Response:** Whilst we can understand the arguments for such an approach, it is our view that the standard setting model within the IFAC structure is demonstrably independent and we support its continuance. We believe that it will be difficult to achieve appropriate levels of sustainable funding for a model outside the IFAC structure.

**Q3:** Do you consider the current three-tier system adequate for achieving its objectives, or an alternative model could be more adequate? In the latter case, which model would you suggest?

**Response:** We fully support the current three-tier system as the best means of achieving its objectives. However, regular reviews of the roles/responsibilities of the various components may be helpful in maintaining a streamlined and cost effective system (see our comments under Q1 above).

**Q4:** Would you support the 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?

**Response:** We support the IPSASB being subject to PIOB oversight – the benefits for such an approach are set out in the Consultation Paper on page 14. This is a matter to be addressed with the utmost urgency given the need for high quality, global reporting standards to be adopted by all Governments as a means of contributing to the resolution of the sovereign debt crisis. We see no need for any special conditions to be imposed on such oversight other than the need for the membership of PIOB to be reviewed and if necessary amended to ensure that it is appropriate to take on this new role. We do not regard the fact that the IPSASB deals with accounting, rather than auditing, rules as a factor to be taken into account at this stage. As referred to in our response to Q1 we are already of the view that each of the PIACs overseen by the PIOB makes different demands on its expertise.

**Q5:** Do you see merit in 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?

**Response:** We have no strong views on this matter, regarding the second part of the question as a matter of detail.

**Q6:** 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?

**Response:** We do not regard this as a matter of the greatest importance and are sure that further discussion amongst the entities concerned will produce a suitable name, if change is regarded as necessary. All we would say is that if the objective is to find a name that better describes the arrangements the use of some of the very lengthy names given on page 16 will not be helpful.

**Q7:** Do you agree with the proposal that the MG should have a more strategic role?

**Q8:** Do you agree with the objectives proposed and, specifically, with the MG having the possibility of conferring with the PIOB on the PIACs' agendas and receiving appropriate feedback?

**Response:** We do not see the MG's role as being strategic but note that the meaning of the term in the Consultation Paper is poorly defined. It is our view that the MG should confine its activities to monitoring and should not seek a direct engagement with the PIACs, which is the role of the PIOB. It should resist involving itself in "micro-management" of agendas of the PIACs, thereby creating duplication, as any major issues should of course be reserved for consideration by the PIACs.

**Q9:** 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 PIACs?

**Q10:** 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?

**Response:** We believe that openness and involvement of investors can only be a good thing but repeat our view that the MG should avoid micro-management.

**Q11:** Would you find it useful that the MG engages with organisations representing governmental institutions? Would the G20 be the most appropriate or, should others bodies be considered instead?

**Q12:** What is your opinion about the current composition of the MG? (i) Do you believe that other organisations (i.e., national or regional regulators) should or could 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?

**Response:** The MG should be fully representative of stakeholders world-wide and therefore we question whether the G20 is the most appropriate organisation. At the same time we do not want to see the MG become too unwieldy. And we would reiterate, again, the importance of the MG continuing to focus on its core monitoring role.

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

**Response:** No, as long as proper due processes of recruitment are in place and adhered to.

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

**Response:** We believe that the relationship between the PIOB and the MG should be guided by their separate roles.

**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?

**Response:** There is a need to clarify the respective roles and responsibilities of those parties currently undertaking representation of the public interest – i.e. public members, PIOB observers attending PIAC meetings, the PIOB as a whole, and the Monitoring Group.

**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?

**Response:** We believe that these are matters for the PIOB to consider.

**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 full member of the MG?

**Response:** We feel that the composition of the PIOB is adequate currently but that it will need to be reviewed as its responsibilities grow particularly if it is to assume oversight of the IPSASB.

**Q19:** 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 having a majority of non-practitioners and a majority of public members?

**Response:** We consider the current composition of the PIACs as entirely appropriate. IFAC's nominations process is robust and carried out under public interest oversight. The arrangements have resulted in a good balance between practitioners and non-practitioners (including public members). The membership of the PIOB (and the MG) is already composed without practitioner members which is quite right for the oversight arrangements. However, as already stated, the PIACs need a membership that does include high quality technical expertise. For instance, it is difficult to envisage how the IAASB could develop auditing standards in the absence of those skilled in those areas. In our view the whole purpose of oversight is to ensure that the "technicians" are developing standards and guidance appropriately.

**Q20:** Do you consider best practice a nine years period for rotation of the representatives of CAG member organisations?

**Response:** We consider strict rotation of CAG members on the basis of limited periods of service as unnecessary and agree with those that see it as a possible restriction on organisations appointing the “best person for the job”.

**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?

**Response:** See question 22 below.

**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?

**Response:** The most important aspect of funding is to ensure that it is long term and adequate. IFAC and the MG have already stated that they “consider it to be in the public interest that parties other than IFAC shall fund at least 50% of the cost of the PIOB” (2003 IFAC Reforms). We agree that funding should be seen as independent by external stakeholders and also recognise that, ideally, the profession should not fund the PIOB. However, the reality is that it has proved difficult to attract other sources of funding and this situation is unlikely to improve given the current economic circumstances. Increasing the contributions of the MG members may provide a helpful temporary solution.

**Q23:** 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?

**Response:** Any alternative funding structure should be the subject of detailed investigation – we regard this as a matter to be considered by IFAC, the PIOB and the MG although we also note that there are differences in the organisational arrangements of the IFRS Foundation and the PIOB.

**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?

**Response:** We view this as something of an operational matter to be discussed amongst the parties concerned. Clearly any wider stakeholders’ group will need to be engaged should such a proposal be adopted since it is likely that additional costs will arise. As stated above, we would not like to see the MG become too unwieldy. On the other hand we can appreciate the arguments for ensuring a level of continuity in its work.

**Q25:** How do you think the governance of the 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?

**Response:** The objective of the governance arrangements should be to enable the PIACs to produce high quality standards that are accepted on a global basis. Standard

setting is one part of audit quality; the PIACs should not be seen as the only means by which audit quality can be improved. The need for experience and expertise to be available in order to ensure standards which encourage audit quality, with lay members able to challenge and public interest oversight in place are critical components of the current effective model.

**Q26:** 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?

**Response:** It is our opinion that the current structure works well but, also, that it continues to adapt and improve. We should remember that world-wide adoption of the existing standards will, of itself, improve quality; only a small number of countries have adopted and fully implemented ISAs.

**Q27:** Do you agree that the current levels of empowerment and responsibility of the bodies that compose the current structure (MG, PIOB and PIACs) are appropriate? If so, do you have any suggestions for improving the dialogue and interaction between the different bodies? If not, how these levels of empowerment and responsibility could be improved?

**Response:** The current levels of empowerment and responsibilities appear to be satisfactory.

**Q28:** 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?

**Response:** We have no comments.

Yours sincerely



Michael Izza

On and behalf of:

ICAEW

CIPFA

ICAS

Chartered Accountants Ireland